

**REPORT OF THE
PROPERTY TAX SYSTEM
STUDY COMMITTEE**



**SUBMITTED TO THE
1985 GENERAL ASSEMBLY
OF NORTH CAROLINA**

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STATE OF NORTH CAROLINA
PROPERTY TAX SYSTEM STUDY COMMITTEE
STATE LEGISLATIVE BUILDING
RALEIGH 27611



SEN A D GUY, CHAIRMAN
REP. ROBERT L. MCALISTER, VICE-CHAIRMAN

March 11, 1985

To the Honorable J. J. Harrington, President Pro Tempore of the Senate and the Honorable Liston B. Ramsey, Speaker of the House of Representatives and Members of the 1985 General Assembly:

Transmitted herewith is the final report of the findings, conclusions and recommendations of the North Carolina Property Tax System Study Committee.

The work of the Committee was authorized by House Bill 1050, (Chapter 838 of the 1983 Session Laws) and was performed in accordance with the instructions of that Act.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "A. D. Guy", written over a horizontal line.

Senator A. D. Guy, Chairman

ADG:sfp

PREFACE

The Property Tax System Study Committee was established by House Bill 1050, enacted as Chapter 838 of the 1983 Session Laws (See Appendix I). The Committee consists of 16 members with eight members of the Senate appointed by the President Pro Tempore of the Senate and eight members of the House appointed by the Speaker of the House. To aid the Committee in its study of the property tax, an Advisory Subcommittee was created composed of six members appointed as follows: the Speaker of the House appointed a county commissioner, a county tax official and a citizen representing the public-at-large; the President Pro Tempore of the Senate appointed a county commissioner, an elected municipal official and a citizen representing the public-at-large. A list of the membership and staff of the Committee is shown on Appendix II.

Chapter 838 instructs the Committee to "make a detailed and comprehensive study of the efficiency, effectiveness and fairness of the property tax system in North Carolina". Specifically, the Committee was directed to study the following matters:

1. all classes of property that comprise the property tax base;
2. all exemptions, exclusions and preferential classifications;
3. the valuation of public utility property to determine whether the property tax system is fair and equitable in taxing the citizens of the State;

4. review current procedures for listing and collecting taxes on personal and real property to determine how to increase the efficiency and equity of these procedures; and
5. examine the octennial revaluation system and evaluate the feasibility of any programs that would aid the counties in conducting more frequent revaluations.

The legislation states that "as an aid to the Committee in its deliberations and to determine the current effectiveness and fairness of the property tax system in North Carolina, the Department of Revenue shall furnish to the Committee the results of a sales ratio study performed under the provisions of G.S. 105-289(h). The Department of Revenue shall conduct the sales ratio study during the period July 1, 1983 through July 1, 1984 to show the level and quality of assessment in the various counties as of January 1, 1984."

The legislation requires the Committee to submit a final written report to the 1985 General Assembly on or before February 1, 1985.

The appointments to the Committee were made in September, 1983. The organizational meeting was held on September 29, 1983. Since that date five 2-day meetings and 11 one-day meetings have been held. In order to conduct the Committee's work expeditiously, the Committee Chairman, Senator A. D. Guy, appointed three subcommittees to study various issues concerning the property tax system. The subcommittee assignments are shown on pages 7 and 8.

The subcommittees have heard presentations from staff, the director and other members of the Ad Valorem Tax Division

of the Department of Revenue, representatives of the North Carolina Association of County Commissioners and the North Carolina League of Municipalities, numerous county tax officials, state university system personnel, the Commissioners and other officials of the Division of Motor Vehicles and affected individuals and organizations. A list of persons appearing before the Committee is shown in Appendix III.

The Committee recommends a number of pieces of legislation to the 1985 session of the 1985 General Assembly. A listing and discussion of these recommendations begins on page 43. Draft legislation encompassing these recommendations is contained in Appendices IV through XVI.

SUMMARY OF MEETINGS

SEPTEMBER 29, 1983

In an organizational meeting Committee members expressed the following concerns and suggestions for study by the Property Tax Study Committee:

- I. The revaluation process.
- II. The way appraisals are made and who makes them.
- III. Agricultural use-value and the method used to arrive at use-value.
- IV. The frequency of revaluation.
- V. Valuation of timber land.
- VI. Inventory tax and its effect on property taxes.

OCTOBER 20, 1983

The Committee heard presentations from the following speakers:

- I. David Crofts, Sr. Fiscal Analyst, Fiscal Research Division, N. C. Legislature

Mr. Crofts discussed the following issues:

- A. Recently-enacted South Carolina law with regard to their method of taxation of farmland.
- B. Property tax bills update and status of the bills.
- C. Materials available to the members from past Commission studies.

II. Rep. Robert McAlister, Vice Chairman 1983 Study Committee
and Chairman 1981-82 Property Tax Study Committee

Rep. McAlister addressed several subjects:

- A. The 1981-82 Property Tax Study and its accomplishments.
- B. Problems which still exist such as the octennial revaluation.
- C. The North Carolina Supreme Court decisions concerning public utility property.
- D. The number of exemptions applicable to the property tax.

III. Doug Holbrook, Director, Ad Valorem Tax Division,
the Department of Revenue

Mr. Holbrook's division staffs the Property Tax Commission, which is the board that hears taxpayer appeals from county boards of equalization and review. Also, the Ad Valorem Division acts as an advisor to counties and cities in property tax matters.

Topics discussed by Mr. Holbrook:

- A. Responsibilities of the Ad Valorem Tax Division.
- B. The need to study the Machinery Act; possibly separating it into a real property Article and a personal property Article.
- C. Problems addressed:
 - 1. The difference in the appraisal cycles of real property and utility property.
 - 2. The homestead exemption.

3. The use-value statute.
4. Collection of tax on motor vehicles.
5. Possible elimination of household personal property tax.

IV. Mr. Butch Gunnells, North Carolina Association of County Commissioners

The Association represents North Carolina's 100 counties before the General Assembly, as well as assisting commissioners and county administrative personnel on legal and technical matters.

Mr. Gunnells made the following observations:

- A. The importance of the revenues received from the property tax to the counties.
- B. Property tax exemptions/preferential treatment.
- C. Octennial revaluation cycle.
- D. Need for land mapping.
- E. Collection of tax on motor vehicles.
- F. Increase interest rate on delinquent taxes.
- G. Longer period of discounts for early payment of taxes.

V. Mr. Fred Baggett, North Carolina League of Municipalities

The League represents cities in North Carolina before the General Assembly, as well as assisting league members and municipal administrative staffs on legal and technical matters.

Mr. Baggett expressed the following concerns:

- A. Exemptions, exclusions and preferential treatment.
- B. The eight-year revaluation cycle.
- C. The possibility of allowing the payment of

property taxes in installments.

D. A method to encourage a more prompt payment of taxes as counties and cities have a "cash flow" problem.

OCTOBER 21, 1983

I. Will Sullivan, Tax Supervisor, Wayne County

Mr. Sullivan discussed the following issues:

- A. The late listing penalty. He recommended it be left at 10%.
- B. The exemption for recycling.
- C. Collection of taxes on motor vehicles.
- D. The revaluation cycle.
- E. The use-value statute.
- F. Tax on personal household property.

II. Wayne Hooper, Chairman, Jackson County Board of Commissioners and Committee member

Mr. Hooper discussed the agricultural use-value problem.

III. Doug Holbrook, Director, Ad Valorem Tax Division

Mr. Holbrook talked about the computerization of the State's tax offices, the costs involved and mapping.

Final action taken during this meeting was the appointment of three subcommittees to study various issues:

SUBCOMMITTEE A - To study Agricultural Use-Value

Sen. Harrington, Chairman

Rep. Anderson

Rep. Gentry

Mr. Hooper

SUBCOMMITTEE B - To study Real Property Revauation Cycle

Rep. Warren, Chairman

Mr. Alphin

Rep. Beall

Sen. Daniels

Sen. Cecil Jenkins

Mr. Elmer Jenkins

Rep. McAlister

Mr. Powell

Mr. Wells

SUBCOMMITTEE C - To study: Technical change recommendations
of 1981 Commission

Other technical changes

Tax collection on motor vehicles

Tax collection recommendations of
1981-82 Committee

Leasehold interests

Appeals process recommendation of
1981-82 Committee

Business personal property (includ-
ing inventories)

Homestead exemption

Rep. Jarrell, Chairman

Sen. Childers

Sen. Guy

Rep. Hasty

Sen. Marvin

Rep. Mavretic

Mayor Young

NOVEMBER 9, 1984

During this first meeting of Subcommittee A, Senator Harrington stated the aims of the meetings:

1. To look into methods used to arrive at use-value for agricultural, horticultural and forest land.
2. To have the subcommittee to write a law which will be interpreted by all 100 counties in the same way.

The following speakers made presentations before Subcommittee A:

- I. David Crofts, Sr. Fiscal Analyst, Fiscal Research Division

Mr. Crofts reviewed the following handouts:

- A. Portions of the Machinery Act dealing with horticultural, agricultural and forest land use-value.
- B. A copy of the relevant portions of the McElwee Supreme Court Case.
- C. A copy of the South Carolina Constitutional provisions having to do with use-value.

- II. Mr. Ken Stewart, Georgia-Pacific Corporation

Mr. Stewart explained current use as it applies to timber land and the exclusion of corporately-owned lands from current use assessment.

Subcommittee B heard presentations from Rep. Robert McAlister.

Mr. McAlister discussed the octennial revaluation cycle and some of the problems addressed by the previous Property Tax

Study Committee. It was decided during this meeting that the following issues would be studied:

1. The land records management program.
2. Hear from representatives of the N. C. Bar Association and the N. C. Realtors Association on the disclosure statement requirements.
3. Hear presentations from various tax supervisors from counties currently undergoing revaluations.
4. Review revaluation recommendations of 1981-82 Study Committee and final versions of those bills.
5. Discussion of revaluation approaches in other states.

Subcommittee C heard presentations from several individuals:

- I. Clint Abernethy, Assistant Secretary of the Department Of Commerce

Mr. Abernethy spoke to the Committee concerning the repeal of the inventory tax.

- II. Alvah Ward, Director, Industrial Development Division, Department of Commerce

Mr. Ward discussed how the inventory tax was a deterrent in the recruitment of new industry for the State.

- III. Bill Penny, Deputy Commissioner of the Division of Motor Vehicles

- IV. R. W. Wilkins, Commissioner, Division of Motor Vehicles

- V. Doug Holbrook, Director, Ad Valorem Tax Division, Department of Revenue

Mr. Penny, Commissioner Wilkins and Mr. Holbrook discussed the problems involved in collecting ad valorem taxes on motor vehicles. Three alternative solutions were offered:

- A. Exempt all motor vehicles.
- B. Impose an excise tax.
- C. Combine the two functions of getting the license plates and paying the taxes at the same time.

NOVEMBER 10, 1983

The full Committee met and heard from Mr. Herschel Brown of Jacksonville, N. C. Mr. Brown discussed the tax levy placed on the valuation of property and the discontent of the citizens of the State with regard to the property tax. Mr. Brown suggested that the Committee consider recommending that legislation be introduced to allow the counties, by referendum, to limit the tax levy by the cities and counties.

DECEMBER 13, 1983

Subcommittee A heard presentations from David Crotts, Sr. Fiscal Analyst, on the following issues:

1. Explanation of the current use-value law.
2. The current methods used in North Carolina to arrive at use-value.
3. Methods used in surrounding states to arrive at use-value.

Ms. Sabra Faires, Staff Attorney, discussed the Supreme

Court decision of the McElwee Case having to do with use-value.

Subcommittee B heard presentations from the following individuals:

I. David Crotts, Sr. Fiscal Analyst

Mr. Crotts gave a brief outline of what would be covered in the Subcommittee meeting:

- A. Concerns of local officials when a revaluation takes place.
- B. Appropriation of monies for improvement of land records.
- C. Full disclosure law which would provide tax supervisors' offices and the Department of Revenue with data necessary to do a sales ratio study.
- D. A requirement (from the 1981 study) that the Department of Revenue perform annual sales assessment ratios.

II. Harvey Pardue, Tax Supervisor, Forsyth County

III. Crawford Collins, Tax Supervisor, Onslow County

IV. Mr. Wayne Hooper, representing the Tax Supervisor, Jackson County

Mr. Pardue, Mr. Collins and Mr. Hooper discussed issues they have faced in handling revaluations:

- A. The progress of the 1984 revaluations
- B. In-house appraisal personnel
- C. The need for computerizing tax offices
- D. The need for land mapping
- E. The eight-year revaluation cycle. (All speakers suggested that it was too long a cycle.)

- V. Mr. Eugene Hafer, representing the N. C. Realtors Association
- VI. Mr. Don Prentiss and Mr. Lawrence Hill, representing the N. C. Bar Association

Mr. Hafer, Mr. Prentiss and Mr. Hill voiced their associations' objections to the disclosure statement:

- A. Forms are too burdensome.
- B. Some versions could delay real estate transactions.
- C. Attorneys are averse to signing them.
- D. They would add another expense to closing.
- E. Whether the information could be kept confidential.

- VII. Don Holloway, Director, Land Records Management Program, Department of Administration

Mr. Holloway stated that there are currently 21 counties which have completed their mapping; 28 counties are in the process. He explained the need for mapping and also the importance of computerizing the tax offices.

DECEMBER 14, 1983

Subcommittee C heard presentations from the following persons:

- I. Mr. Bill Rustin, North Carolina Merchants Association and representing a Task Force on Inventory Tax Repeal

Mr. Rustin presented a plan to phase-in a 15% credit on income tax for inventory taxes paid over a 3-year period, using the windfall provided by the accelerated tax payments.

II. R. W. Wilkins, Commissioner, Division of Motor Vehicles

Mr. Wilkins recommended that some tax supervisors, representatives from the State's tag offices, the Department of Revenue and the Division of Motor Vehicles get together to draw up a plan to improve the method of collecting ad valorem taxes on motor vehicles.

III. Ms. Sabra Faires, Staff Attorney

Ms. Faires explained technical changes which were lifted out of H. B. 204 (the bill is currently in the Senate Finance Committee). These changes are not controversial and the following proposals were accepted by the full Committee:

- C-1 AN ACT TO REPEAL AN OBSOLETE PROPERTY TAX STATUTE THAT VALIDATES CERTAIN REAL PROPERTY TAX LISTINGS.
- C-2 AN ACT CLARIFYING THAT THE INVENTORY OF EVERY BUSINESS ENTERPRISE IS SUBJECT TO PROPERTY TAX.
- C-3 AN ACT CHANGING THE PROCEDURE BY WHICH LOCAL TAX AUTHORITIES MAY OBTAIN CERTAIN INFORMATION FROM THE DEPARTMENT OF REVENUE.
- C-5 AN ACT REQUIRING BUILDINGS THAT HAVE BEEN CONVERTED INTO CONDOMINIUM UNITS OR TIME SHARE UNITS TO BE APPRAISED AS SUCH UPON CONVERSION.
- C-6 AN ACT TO PERMIT LATE APPLICATIONS FOR PROPERTY TAX EXEMPTION OR EXCLUSION IN CERTAIN CIRCUMSTANCES.
- C-7 AN ACT CLARIFYING THAT ALL PROPERTY OWNED BY THE STATE AND ITS POLITICAL SUBDIVISIONS IS EXEMPT FROM TAX.
- C-8 AN ACT CHANGING THE DESIGNATION OF COUNTY TAX SUPERVISOR TO COUNTY ASSESSOR TO REFLECT MORE ACCURATELY THE DUTIES OF THAT POSITION.
- C-9 AN ACT TO EXEMPT PROPERTY OWNED BY A HOMEOWNERS' ASSOCIATION FROM TAXATION.
- C-10 AN ACT REGARDING NOTICE OF ADOPTION BY THE COUNTY COMMISSIONERS OF REVALUATION SCHEDULES, STANDARDS, AND RULES.

JANUARY 19, 1984

Subcommittee A heard further discussion concerning use-value
and a presentation by Ms. Sabra Faires and Mr. Doug Holbrook on
Bertie County's appeal to the Property Tax Commission.

I. Ms. Sabra Faires, Staff Attorney

Ms. Faires explained the questions raised concerning Bertie
County's revaluation of property:

- A. Did the true value schedules adopted by Bertie
County comply with the statutory requirements. The
Commission found that answer was "no".
- B. Is it illegal or arbitrary for a board of county
commissioners to adopt a present-use value schedule
which will result in the appraisal of land used for
agricultural, horticultural or forest purposes at the
same value as its true market value, when the land
has no greater value for other purposes. The Commis-
sion found the answer to be "no".
- C. In order for property to be eligible for ad valorem
taxation on the basis of the value of the property in
its present use, is it sufficient that the property
merely comes within one of the classes defined in
North Carolina G.S. 105-277.3. The answer was "no".
- D. Is the income approach to value the sole appropri-
ate method to be used in North Carolina to determine
the value of property which is eligible for ad valorem
taxation on the basis of the value of the property in

its present use. The Commission also found the answer to be "no".

II. Doug Holbrook, Director, Ad Valorem Tax Division

Mr. Holbrook discussed the Bertie County case and the original concept of the use-value legislation and the problems involved in setting the schedules of value. Another problem involved is the problem of property values increasing and decreasing during the eight-year revaluation cycle and that the system does not reflect the current economic happenings.

III. David Crotts, Sr. Fiscal Analyst

Mr. Crotts discussed the use-value statutes of South Carolina, Georgia, Tennessee, Virginia, Maryland and Florida.

Subcommittee B's first speaker was Mr. Russell Swindell who represents the N. C. Railroad Association. Mr. Swindell introduced Mr. Lyman Cooper.

I. Mr. Lyman Cooper, Director, Ad Valorem Tax Division
Seaboard Coastline Railroad

Mr. Cooper proposed the following issues:

- A. The problems involved with the eight-year reappraisal cycle.
- B. The possibility of changing the term "tax supervisor" or "assessor". The State of Kentucky uses the title of "Property Valuation Administrator", which more aptly describes the position.
- C. The need for and the use of ratio studies.
- D. The need for full disclosure statements.
- E. The inequities in the assessment of personal property.

II. Jimmy Hardee, Tax Supervisor, Pitt County

Mr. Hardee talked about the following issues:

- A. The eight-year revaluation cycle.
- B. Doing revaluations in-house.
- C. Computerization of tax offices.
- D. Professional training for appraisers.
- E. Full disclosure statements.
- F. Sales ratio studies.

III. Mr. Don Holloway, Department of Administration

Mr. Holloway brought the Committee up to date concerning the computerization of the State's tax offices.

Subcommittee C recognized Ms. Sabra Faires.

I. Ms. Sabra Faires, Staff Attorney

Ms. Faires went over some minor changes in three of the technical amendments submitted in the last meeting. She then explained the following technical amendment and the Committee accepted this proposal:

- A. C-4 AN ACT CLARIFYING THE TYPE OF INFORMATION THAT MAY BE REQUESTED FROM TAXPAYERS WHO ARE ENGAGED IN BUSINESS IN MORE THAN ONE COUNTY.

II. David Crotts, Sr. Fiscal Analyst

Mr. Crotts discussed the fiscal effects of the inventory tax proposal from the Permanent Task Force on Inventory Tax and the overall tax burden in North Carolina compared to other states.

III. Rep. Joe Mavretic, Member of the Committee

Rep. Mavretic talked about having a study done concerning the

taxation of services or service-related industries.

At the end of the Subcommittee C meeting, a motion was made to have the Property Tax Study Committee and the Revenue Laws Study Committee meet jointly to hear a discussion on taxing services as an alternative to increasing the four major taxes. This motion carried and the meeting was set for February 9, 1984.

FEBRUARY 9, 1984

The Property Tax System Study Committee and the Revenue Laws Study Committee held a joint meeting. The purpose of the joint meeting was for both Committees to hear presentations from the Committee staff and others concerning replacement of revenues should the Committees recommend the elimination of the inventory tax and intangibles tax. Both Committees have been studying the inventory tax issue.

Rep. Daniel Lilley, Chairman of the Revenue Laws Study Committee introduced Ms. Sabra Faires, staff, to give a brief overview of the work of the Revenue Laws Committee concerning the inventory and intangibles taxes.

Mr. David Crotts, staff, explained the work of the Property Tax Study Committee on the inventory tax.

Mr. Bill Rustin, representative of the Task Force on an Income Tax Credit For Property Tax on Business Inventories explained the Task Force's proposal:

1. To allow a 15% credit on income tax for inventory taxes paid over a three-year period.

2. The windfall provided by the accelerated corporate tax payments would provide the revenue for this credit.
3. At the end of three years the credit would cease and the plan could be evaluated to see if it spurred economic development in the State.

Rep. Mavretic made a motion that the legal staff develop the language for a policy proposal which would create the framework for an exchange tax for North Carolina. The motion was passed.

Other topics discussed involving the intangibles tax were:

1. Intangible tax on accounts receivable and notes receivable.
2. The collection of the intangibles tax on money on deposit.

Following the joint meeting, the Property Tax System Study Committee Meeting was called to order. The following individuals made presentations:

I. Mr. Coyte Wite, President, Catawba County Farm Bureau

Mr. Wite discussed the method of using soil types to arrive at the value of farm land in Catawba County. This method represented a pilot program developed by the Ad Valorem Tax Division and had been successful in Catawba County during the revaluation.

II. Bob Miller, Tax Administrator, Catawba County

Mr. Miller explained the use of soil maps in determining soil types and production capability of the land and how it was applied in the revaluation process in Catawba County.

III. Darwin Newton, State Soil Scientist, U. S.
Department of Agriculture

Mr. Newton described how the Soil Conservation Service would assist counties in obtaining soil maps and also discussed the Land Evaluation and Site Assessment Program (LEASA).

MARCH 1, 1984

The following persons made presentations before Subcommittee A:

I. Ms. Sabra Faires, Staff Attorney

Ms. Faires discussed Incentive Taxation and stated that proponents claimed the following benefits of such taxation:

- A. It promotes the efficient use of land because land is taxed at a higher rate than improvements and land development is encouraged and used to its best economic means.
- B. It discourages land speculation as it prohibits the buying of land and holding it as the taxes would be prohibitive.
- C. It produces more jobs because of increased construction.
- D. It encourages upkeep of buildings in aging neighborhoods.
- E. It results in increases in the tax base of the taxing unit.

The subcommittee felt that incentive taxation did not apply to the situation in North Carolina.

II. Mr. Rick Hamilton, Coordinator of Private Woodlot
Programs, N. C. State University

- III. Mr. Fred White, Staff Forester, N. C. Division of Forest Resources
- IV. Mr. Carlyle Franklin, Director, Small Woodlot Forestry Research and Development Program, N. C. State University
- V. Dr. Gary Kronrad, Assistant Professor, Forest Resources and Economics, N. C. State University

Mr. Hamilton, Mr. White, Mr. Franklin and Dr. Kronrad discussed issues and concerns about the current use law as it pertains to forest land:

- A. The vagueness of the law.
- B. The lack of uniformity of application.
- C. The equity application of the law in terms of individual versus corporate ownership.
- D. The raw land concept.
- E. The on-going yield concept.

Subcommittee B heard discussions from the following persons:

- I. Ms. Sabra Faires, Staff

Ms. Faires discussed a bill on subdivided parcels which had been considered during the 1983 session but not enacted. Ms. Faires said that under the current law when a tract of land had been divided into lots and laid out with streets open to travel and there are more than five acres of the tract unsold to which the owner still has title, then the tax supervisor has the discretion of either appraising that land as acreage or as lots in non-revaluation years. In revaluation years all property has to be appraised at its true value unless it is classified and has a special appraisal under its classification.

- II. Rep. Clyde Auman(Introducer of the bill on subdivided parcels)

Mr. Auman asked that the Committee consider amending the bill so that the lots would be taxed as raw land until sold and there should be a rollback of three years.

- III. Mr. Eugene Hafer, N. C. Realtors Association

- IV. Mr. Don Prentiss, N. C. Bar Association

Mr. Hafer and Mr. Prentiss briefly discussed problems they anticipated with full disclosure statements and asked that they be invited back to a later meeting and they would make some definite proposals at that time.

- V. Rep. Charles Beall, Member of the Committee

Rep. Beall discussed a proposal having to do with the advertisement of tax liens. He proposed having the advertisement run one time instead of four times in a local newspaper. The proposal was recommended to the full Committee for consideration.

Subcommittee C heard from the following individuals:

- I. Mr. Bill Rustin, N. C. Merchants Association

Mr. Rustin discussed the proposal for a three-year partial income tax credit for property taxes paid on inventories.

- II. Mr. Butch Gunnells, N. C. Association of County Commissioners

- III. Mr. Ellis Hankins, N. C. League of Municipalities

Mr. Gunnells and Mr. Hankins stated that their associations had not taken a formal stand on the proposal on the tax credit on inventories; however, they felt the short-term plan of three years would not adversely affect them. They did express concerns about

an outright repeal of the tax.

The proposal for a three-year partial income tax credit for property taxes paid on inventories was recommended to the full Committee for consideration.

IV. Ms. Sabra Faires, Staff

Ms. Faires explained changes that had been made in the technical bills C-1 through C-12. All the bills were recommended to the full Committee for consideration.

V. R. W. Wilkins, Commissioner, Department of Motor Vehicles

Mr. Wilkins discussed the recommendations of the Department concerning the collection of ad valorem taxes on motor vehicles:

- A. There would have to be a single value and a single tax rate per county.
- B. Renewal notices would be sent out along with what the ad valorem tax would be on the vehicles.
- C. Customer would take notice to tag office and pay fees. A receipt would be stamped to validate the registration for an additional thirty days.
- D. Tag office would mail the receipt to the Department.
- E. Computer would scan information and generate a sticker and tag would be mailed back to the customer.

It was suggested that this plan be carried over to the next subcommittee meeting for further study.

APRIL 12, 1984

Subcommittee A heard from Dr. D. F. Neuman, Department of Economics and Business, N. C. State University and Mr. Doug

Holbrook, Director, Ad Valorem Tax Division, Department of Revenue. Dr. Neuman and Mr. Holbrook discussed agricultural use-value taxation in North Carolina. Mr. Holbrook suggested the idea of establishing a statewide capitalization rate and a statewide value range depending on soil classifications. These issues will be further explored at later meetings.

Subcommittee B again considered the disclosure statement proposal and heard from Mr. Eugene Hafer and Mr. Don Prentiss. Two problems pointed out by Mr. Hafer and Mr. Prentiss were:

1. Where the statement is going to be filed.
2. Who would sign the disclosure statement.

They added that the Realtors Association and the Bar Association were reluctant to endorse the proposal.

It was suggested that David Crotts, staff, get the representatives of the two associations and the Ad Valorem Tax Division together to try to resolve the problems and report back to the subcommittee at a later date.

Subcommittee C considered several issues:

- I. Gerald Fox, County Manager, Mecklenburg County
- II. Hamlin Wade, Mecklenburg County Tax Attorney

Mr. Fox and Mr. Wade had asked to appear before the subcommittee to discuss an exemption enacted in 1973 and amended in 1974 concerning special nuclear materials. They stated that Duke Power Company had requested an exemption under an interpretation of this statute. Mr. Fox and Mr. Wade requested the subcommittee to consider an amendment which would clarify the existing statute as to its original intent.

III. Mr. John Hicks, Sr. Vice-President, Public Affairs,
Duke Power Company

Mr. Hicks presented his company's view of the issue and stated that tax attorneys had told him that Duke Power did come under the statute and requested the subcommittee not to take the exemption away. He suggested that the issue could be decided by the courts.

The problem of the exemption of special nuclear materials is to be studied further at a future meeting of the subcommittee.

IV. R. W. Wilkins, Commissioner, Department of Motor Vehicles

Mr. Wilkins again explained the following recommendations for the collection of ad valorem taxes on motor vehicles:

- A. There would need to be major changes in the ad valorem tax legislation as all of the counties would have to agree on one tax rate.
- B. There would be a system of handling the renewals through the mails.
- C. Tag offices would collect the fees for the tags plus the ad valorem taxes due on the vehicles. Notices of these amounts would have been mailed to all people who have vehicles registered.
- D. The validation of the sticker would be extended an additional 30 days for that documentation to come in from the tag offices and to be processed and then the plate or sticker would be mailed back to the taxpayer.
- E. The system would require additional computer programs.
- F. The program could possibly be implemented by 1986.

The staff was directed to prepare a resolution for presentation

to the full Committee containing the proposal of Commissioner Wilkins, including the machinery to put it into effect and that resolution be contained in the interim report of the Property Tax System Study Committee.

V. Doug Holbrook, Director, Ad Valorem Tax Division

Mr. Holbrook gave a brief explanation of the technical proposals C-1 through C-12. Rep. Mavretic moved that these proposals be incorporated into a single bill to be drafted for introduction into the Senate and that this bill be recommended to the full Property Tax Study Committee. The motion passed.

VI. Rep. Joe Mavretic, Member of the Committee

Rep. Mavretic explained a proposed bill on the exchange tax. He moved that the proposal be recommended to the full Committee and that it be included in the interim report to the 1984 session. The motion carried.

VII. Carla Peterson, Staff Analyst, Fiscal Research Division

Ms. Peterson discussed the homestead exemption. This information was accepted for study by the subcommittee at future meetings.

The full Property Tax Committee met and made the following recommendations which were adopted and are to be included in the interim report:

- A. The approval of the inventory tax bill to be introduced in both Houses of the Legislature in June, 1984.
- B. The approval of the exchange tax bill to be introduced in both Houses of the Legislature in June, 1984.
- C. Approval of a draft bill to include proposals C-1 through C-12 to be drawn as a Senate Bill for consideration in the June, 1984 session.

D. Approval of a bill concerning the advertisement of tax liens.

E. Approval of a resolution containing the proposal of Commissioner Wilkins on the collection of ad valorem taxes on motor vehicles.

MAY 11, 1984

Subcommittee C met to consider an amendment to G.S. 105-275(6) concerning the special nuclear materials exemption. Ms. Sabra Faires, Staff Attorney, gave a brief history of the statute. Following discussion, the subcommittee recommended that a bill be drafted to clarify the scope of the exemption and that this bill be submitted to the full Committee for their approval.

The full Property Tax Study Committee met to discuss the interim report to be submitted to the June, 1984 session of the General Assembly. David Crotts was recognized to explain the report. Following discussion of the report, the Committee asked that several changes be made and it was decided that the Committee would meet again in the early part of June to give final approval to the interim report.

A motion was made that the bill concerning Special Nuclear Materials exemption be approved and included in the interim report.

JUNE 14, 1984

A brief meeting of the full Property Tax Study Committee was held to approve the Interim Report to be submitted to the June, 1984 session of the General Assembly. The Committee approved the draft of the report and the Chairman asked the Committee members to support the recommended legislation in the session.

Senator Guy then appointed to the following persons to serve on a Task Force to study the problems of collecting ad valorem taxes on motor vehicles:

Rep. Mary Jarrell, Chairman

Sen. J. J. Harrington

Sen. Helen Marvin

Rep. Robert McAlister

Rep. Pete Hasty

Mayor R. G. Young, Jr.

Mr. Doug Holbrook

Commissioner R. W. Wilkins, Division of Motor Vehicles

Mr. Butch Gunnells, N. C. Association of Co. Commissioners

Mr. Fred Baggett, N. C. League of Municipalities

Mr. Wayne Hooper

Resource Persons:

Mr. Doug Haynes, Division of Motor Vehicles

Mr. David Sharpton, Asheville, N. C.

Mrs. Maude Fowler, Gastonia, N. C.

Mr. John Stillwell, III, High Point, N. C.

Mr. Robert A. Pruett, Division of Motor Vehicles

Mrs. Annie Ruth Brown, Division of Motor Vehicles

Mr. Gonzalie Rivers, Division of Motor Vehicles

SEPTEMBER 13, 1984

Subcommittee "C" met to consider several matters before them. Issues discussed and action taken follow:

Leasehold property issue. This issue was discussed previously by the 1981-82 study Commission which made a recommendation to the 1983 General Assembly. Several persons made presentations to the subcommittee: Mr. Doug Holbrook, Director, Ad Valorem Tax Division, Department of Revenue; Mr. Butch Gunnells, N. C. Association of County Commissioners; Mr. Fred Baggett, N. C. League of Municipalities; Mr. Warren Martin, Piedmont Airlines.

The subcommittee took no action on the problem of leasehold property and postponed further consideration to such time all information requested by members of the subcommittee was available.

Tax Collection Recommendations. The subcommittee gave favorable approval and referred the following 1981-82 study commission recommendations to the full Committee:

(A) To extend the discount period from the end of August under the present law to the end of November.

(B) To require Local Government Commission's approval of the discount schedule.

(C) To adjust incorrect tax payments in cases where the correction is minor.

The subcommittee delayed action to a future meeting on:

(A) The increase in interest rates on late tax payments.

(B) The increase in interest rates that applies to in rem foreclosures.

(C) The deletion of insignificant tax receipts from tax collector's charge.

(D) Restructuring the penalty for late tax listings.

Another issue debated was the appeals process recommendations package from the 1981-82 Property Tax Study Committee. No action was taken on these recommendations as the staff was asked to review them further and report their recommendations at a later meeting.

The last group of items discussed was the technical recommendations to the Machinery Act that were part of the recommendations of the 1981-82 study committee. The subcommittee made a few necessary changes to these proposals and gave them a favorable report and referred them to the full Committee.

NOVEMBER 27, 1984

The purpose of the full Committee meeting was to hear reports from the Subcommittees. Mrs. Jarrell, Chairman of Subcommittee "C" stated that her subcommittee had requested that persons interested in the leasehold tax exemptions make presentations to the full Committee. Individuals speaking in behalf of additional exemptions to the tax were:

Mr. Mac Boxley, representing CATRALA of N. C.

Mr. Ed Hatch, Raleigh-Durham Airport Authority

Ms. Karen Murphy, N. C. Hospital Association

Ms. Laura Kranifeld, N. C. League of Municipalities

The Committee also heard from Mr. Ron Aycock, N. C. Association of County Commissioners who stated that he felt a public policy decision should be made as to whether there should be equity in this area and thus, whether there should be some exceptions.

The staff was asked to look at the requests for exemptions that are not covered presently in the existing bill and to have a draft of a new bill ready for the December meeting.

Other recommendations from Subcommittee "C" which were accepted by the full Committee were:

1. To amend the law regarding late payment of property taxes by changing the 9% annual rate to a rate to be determined by the Secretary of Revenue each November 1, based on the

average interest rate on the 5-year U. S. Treasury note for the preceding September to August period.

2. To approve a proposal to allow a local governing board to treat incorrect tax payments of \$10.00 or less as a correct amount.

3. To have staff and Mr. Holbrook draft a bill containing the appeal process provisions contained in the 1983 Session bill recommended by the 1981-82 study committee.

Rep. Ed Warren, Chairman of Subcommittee "B" reported that no decision had been made on the eight-year revaluation issue but that the subcommittee would continue to study the 1981-82 study committee's recommendations to have more frequent real property revaluations. Also, there would be a report from Mr. Holbrook on the sales assessment ratio study at the next meeting of the full Committee.

Senator Harrington reported that Subcommittee "A" was continuing its study of the agricultural use-value issues and would also address the use of agricultural use-value for corporately-owned forest land at the December meeting.

DECEMBER 20-21, 1984

The Task Force to study the collection of ad valorem taxes on motor vehicles met December 20 to work on the details of a plan submitted by the Division of Motor Vehicles. Issues discussed and final action taken follow:

1. A motion passed to limit the recommendations for the plan to private passenger cars, motorcycles and light trucks.

2. A motion passed to accept the plan for collecting bad checks as stated in the proposal from the Division of Motor Vehicles.

3. A motion passed to adopt the Division's plan in substance and stated that it will be optional to the counties to elect to participate in it.

4. A motion passed to limit property tax rates on motor vehicles to two rates; one for vehicles located in a city and one for those located outside a city.

5. A motion passed that those counties that option for the plan will reimburse the State for the cost of collection and the cities in like manner.

6. A motion passed that specified that proceeds of the taxes collected would be disbursed to the county each month for distribution to their municipalities.

7. A motion carried that the Division of Motor Vehicles study the additional time and costs involved in collecting

the tax and recommend to the General Assembly that the rate per item to reimburse the license tag agencies be set by the General Assembly.

8. A motion carried that owners of vehicles exempt from the property tax be required to obtain an exemption certificate from the county tax supervisor where the vehicle is based.

Mr. John Stillwell, High Point, N. C., representing the N. C. License Plate Agencies, spoke to the Task Force and made the following suggestions:

1. When the counties are able to determine what persons have not paid property tax, then they supply the Division with that information.

2. That information would be placed on DMV's computer and a stop notice issued.

3. Every branch office would be issued a computer viewer and if an individual did not have a renewal card, information would be put into the computer and a stop notice that the property taxes had not been paid would be issued.

Subcommittee "A" reviewed problems concerning the agricultural use value and asked the staff to meet with some tax supervisors to get their input. Rep. Anderson explained a draft bill concerning the taxation of publicly owned corporate timberland. This proposal was accepted and referred to the full Committee.

Mr. Allan Spalt, representing the Research Association with the Rural Advancement Fund spoke in opposition to the Anderson bill.

Rep. Warren, Chairman, Subcommittee "B" recognized Mr. Don Holloway, Director of the Land Records Management Program, to explain the program and costs involved with mapping the state. David Crofts, staff, presented a draft bill to increase the appropriation for funding the mapping program. The draft bill was accepted and referred to the full Committee.

Mr. Doug Holbrook was recognized and presented the members present with copies of the sales assessment ratio study conducted by the Department of Revenue. This study was required in the legislation establishing the 1983 Property Tax Study Committee.

JANUARY 10-11, 1985

The Task Force on the collection of property taxes on motor vehicles met on January 10. Rep. Jarrell, Chairman, stated that there were several issues concerning the original plan the Division of Motor Vehicles developed which needed to be addressed. The subcommittee proposed the following amended plan:

1. The State should assume the responsibility for collecting the property taxes on motor vehicles, to be returned to the counties and cities in the same manner in which the intangibles tax and other such taxes are collected by the State and returned.

2. The taxation be structured on a statewide basis.

3. The collection of taxes on motor vehicles be limited to personal passenger vehicles, motorcycles and light duty trucks licensed for 4,000 pounds or less.

4. Branch agents take personal checks.

5. Vehicles exempt from the property tax be required to obtain an exemption certificate from the county tax supervisor where the vehicle is based.

6. The Division of Motor Vehicles would deduct bad checks from the county portion, on a monthly basis, and return the checks to the counties for collection. At the end of sixty days from that date, the Division would be notified of any uncollected checks for appropriate action to be taken on the license tag.

7. There would be a standard statewide value set for the vehicles by the Department of Revenue.

8. All local tax rates would be used in lieu of consolidating the various municipal rates in a county into one rate.

9. There would be a public relations effort for the program.

10. Counties and municipalities would reimburse the State for all administrative costs.

11. The effective date of the program would be January 1, 1987.

Rep. Jarrell reported the progress of the Task Force to the full Committee and stated that draft language would be forthcoming at the next meeting of the full Committee.

The full Property Tax Committee took action on recommendations sent forth from the subcommittees. Subjects covered and action taken follow:

1. Two proposals presented by the N. C. Tax Collector's Association were accepted and recommended to the General Assembly;

(a) move the date for the tax collector's settlement from late June until after July 1, but before the tax collector is charged with the collection of current year taxes; and

(b) make more equitable the release and refund of property tax claims.

2. A bill submitted on the recommendation of Subcommittee "B" and recommended to the General Assembly that would increase state appropriation to local land records improvements.

3. All of the tax collection recommendations received by the full Committee at the previous meeting were recommended to the 1985 General Assembly.

4. The technical change recommendations included in the Interim Report be submitted to the 1985 General Assembly.

5. Adopt a proposal recommended by Subcommittee "A" that would make land owned by a corporation eligible for use value appraisal and to require payment of deferred taxes for the previous five years instead of three years.

6. Adopt a bill recommended by Subcommittee "B" that would annually adjust the property tax homestead exemption and income eligibility limit for inflation.

Senator Harrington reported that Subcommittee "A" was continuing to make progress on a proposal to clarify the use value law and to ensure more statewide uniformity in its application.

Rep. Warren reported that Subcommittee "B" was working on a package that would lead to annual adjustment of real property tax values between revaluation years.

JANUARY 29, 1985

The Property Tax Study Committee met to discuss and approve proposals before the Committee for their inclusion in the final report. The following proposals were adopted by the Committee.

1. A bill proposed by the Task Force on the collection of ad valorem taxes on motor vehicles.

2. An Act To Tax Lessees And Users Of Property Owned By The United States, The State, Or Its Political Subdivisions And Used By The Lessees Or Users For Private Business Purposes.

3. An Act To Shorten The Revaluation Cycle And Require Annual Adjustments To Real Property Values.

4. An Act To Require Real Property Disclosure Statements.

5. An Act To Make Land Owned By A Corporation Eligible For Use Value Appraisal And To Require Payment Of Deferred Taxes For The Previous Five Years Instead Of Three Years When A Disqualifying Transfer Of Land Occurs.

6. An Act To Change The Method Of Determining Present Use Value And To Make Present Use Value Classification Uniform And Easier To Administer.

7. An Act To Improve The Collection Of Property Tax.

MARCH 6, 1985

In its final meeting the Property Tax Study Committee reviewed the recommendations it had approved at the January 29 meeting and to approve the bill form of concepts adopted at the January 29 meeting along with some new recommendations. The final recommendations adopted by the Committee are as follows:

1. Land Records Appropriations
2. Property Tax Technical Change Recommendations
3. Extend Current System Of Taxation Of Public Property
Used By Lessee For Private Purposes
4. Indexing The Property Tax Homestead Exemption
5. Delete Certain Tax Receipts From Tax Collector's Charge
6. Railroad Bill
7. Require, On A Confidential Basis, The Full Disclosure
Of Sales Price On All Real Property Sales
8. Establish A System Of Annual Indexing Of All Real
Property And A Six-Year Revaluation Cycle
9. Extend Eligibility For Use Value Assessment To
Publicly Held Corporations
10. Agricultural Use Value System Recommendations
11. Collection Of Ad Valorem Taxes On Motor Vehicles
12. Property Tax Protest And Appeals

RECOMMENDATIONS

DELETE CERTAIN TAX RECEIPTS FROM TAX COLLECTOR'S CHARGE

There is no provision in the Machinery Act to allow a county or city governing board to delete from a tax collector's charge property tax bills that involve a very small sum of money. These bills cause a considerable administrative expense relative to the size of the bill. This recommendation would allow a board of county commissioners or a city council to delete bills for personal property taxes only that are less than a designated amount chosen by the governing body not to exceed \$10. The deletion would apply only to taxpayers for whom not more than one tax receipt is prepared.

The recommended legislation for this proposal is contained in Section 1 of Appendix IV.

GIVE THE TAX COLLECTOR A LIMITED SUBPOENA POWER

Under current law, the tax supervisor but not the tax collector has the power to subpoena a person for examination under oath and to subpoena documents in limited circumstances. The tax supervisor may subpoena persons that he has reasonable grounds to believe have knowledge pertinent to the discovery, valuation, or listing of property, and he may subpoena documents that he has reasonable grounds to believe contain information pertinent to the discovery, valuation, or listing of property, G.S. 105-296(g). As an aid to the tax collector in the performance of his duties, the Committee recommends that a similar subpoena power be given to the tax collector. Similar to a subpoena of a tax supervisor, the Committee recommends that a subpoena of a tax collector be signed by the head of the governing body of the taxing unit and that failure to comply with a subpoena of a tax collector be made a general misdemeanor.

Section 2 of Appendix IV contains the recommended legislation for this proposal.

ADJUST CERTAIN INCORRECT TAX PAYMENTS

There is no provision in the Machinery Act to allow a tax collector to adjust an incorrect property tax payment of a very small amount. In such cases the collector must go through the normal administrative process used for overpayments and underpayments of larger magnitude. Such a process is not cost-effective when the overpayment or underpayment is small. In practice, many collectors are making adjustments without the proper legal authority. This recommendation would allow a county board of commissioners or city council to adopt a resolution to allow the tax collector to treat overpayments or underpayments of less than \$1 as a payment of the correct amount. Overpayments of less than \$1 would still be refunded to the taxpayer if the taxpayer so requested.

The recommended legislation dealing with this proposal is contained in Section 3 of Appendix IV.

INCREASE INTEREST RATE ON LATE TAX PAYMENTS

Under current law late tax payments made after January 5 and before February 1 are assessed a 2% interest rate charge. For payments made on or after February 1, the monthly rate of 3/4% (9% per year) applies. During the last few years, with short-term interest rates running as high as 15-20%, counties and cities have been forced to act as "bankers" as taxpayers delay paying their taxes in order to invest their money at these rates instead of paying their tax bill.

The Committee looked at two different options toward adjusting the 3/4% per month interest rate. The first approach was simply to raise the rate to a more reasonable level. The problem with that option is that interest rates fluctuate widely and rapidly. Thus, any flat interest rate could be off-target soon after it was adopted, and the General Assembly would have to spend time and money to reenact another rate in the future.

The other possibility the Committee reviewed was a floating, or indexed rate. Both federal and state income tax laws tie the rate for late income tax payments and refunds to money market rates. The financing of many types of real estate transactions in today's economy is tied to the market place. The use of such a mechanism would mean that the rate for late property tax payments would always be closely aligned with rates people could earn on investments, and the General Assembly would not have to constantly adjust a fixed rate that was obsolete.

The proposal adopted by the Committee requires the Secretary of Revenue to set the interest rate to be used by all local units during the upcoming calendar year. The rate would be set by November 1, based on the interest rate on five-year treasury notes during the twelve month period ending the immediately preceding August 31. This schedule should give Revenue time to receive official notice of published rates and notify all counties and cities of the new rate. The new rate would apply for the upcoming calendar year.

Sections 4,5, and 7 of Appendix IV contain the recommended legislation for this proposal.

EXTEND PERIOD DURING WHICH LOCAL UNITS MAY OFFER
DISCOUNTS FOR EARLY PAYMENT OF PROPERTY TAXES

Each county and city establishes its property tax rate annually, effective beginning July 1. The due date for the tax is September 1. Most units begin mailing tax bills from late July through August. Tax payments may be made through January 5 of the next year without penalty or interest.

The Machinery Act allows each local governing board to offer discounts for early payment of taxes through the end of August. This period is so short and ends so far away from the effective due date of the tax (January 5) that the discount is not an effective collection tool. To improve the usefulness of the discount, the Committee recommends that the discount period be extended through November 30.

The recommended legislation for this proposal is contained in Section 6 of Appendix IV.

REQUIRE LOCAL GOVERNMENT COMMISSION'S APPROVAL
OF DISCOUNT SCHEDULE

In developing the recommendation to restructure the discount schedule for early payment of taxes, the Committee discussed the current requirement that the schedule adopted by each county and city be submitted to the N. C. Department of Revenue for approval prior to publication in local newspapers. The purpose of this requirement is to ensure that a county or city will not adopt an unreasonably high discount rate. The Committee, upon the advice of the Department of Revenue, changed the approving agency from the Department of Revenue to the Local Government Commission of the Department of State Treasurer. In making this change the Committee felt that the Local Government Commission's fiscal oversight role, coupled with the interest rate information the Commission routinely receives from other divisions of the Treasurer's Office, makes the Commission a more appropriate body for the approval of discount schedules.

The recommended legislation dealing with this proposal is contained in Section 6 of Appendix IV.

CLARIFY THE REMEDIES AVAILABLE TO A TAX COLLECTOR BEFORE
THE TAXES ARE DELINQUENT

Under current law, property taxes are due on September 1 of each year but are not subject to interest charges for late payment until the following January 6. This discrepancy between the actual and effective due date for taxes has created some confusion over the remedies a tax collector may use to collect taxes between September 1 and January 6. G.S. 105-366, for example, allows a tax collector to levy on and sell personal property for failure to pay a tax on or before September 1, even though the tax is not considered late until January 6. To resolve this anomaly, in the statutes, the Committee recommends that references to the tax collector's remedies concerning taxes that are "due" be changed to taxes that are "delinquent" and that the statutes state that taxes that are not paid before January 6 are delinquent.

Sections 4 and 8 of Appendix IV contain the recommended legislation for this proposal.

ALLOW THE TAX COLLECTOR TO LEVY ON AND ATTACH CERTAIN
PERSONAL PROPERTY TRANSFERRED BY A CORPORATION
THAT OWES DELINQUENT PROPERTY TAXES

Current law allows a tax collector to levy on and attach certain personal property owned or transferred by a taxpayer who has failed to pay his overdue property taxes. G.S. 105-366(b) lists the types of personal property that a tax collector may levy on and attach for overdue taxes. This list includes any personal property owned by the taxpayers, any personal property transferred to a relative, any personal property of the taxpayer's that is in the hands of a receiver, and any personal property of the taxpayer's that has been repossessed by a holder of a security interest in the property.

To aid the tax collector in collecting overdue taxes, the Committee recommends that personal property transferred by a means other than a bona fide sale for value by a corporation to one of its stockholders or to a relative of one of its stockholders be added to the list of personal property in G.S. 105-366(b) that the tax collector may levy on and attach.

Section 9 of Appendix IV contains the recommended legislation for this proposal.

STRENGTHEN THE COLLECTION OF TAXES FROM A MERCHANT
WHO SELLS OR TRANSFERS MOST OF HIS INVENTORY,
OTHER THAN IN THE ORDINARY COURSE OF BUSINESS

Current law requires a merchant who sells or transfers most of his inventory of goods, other than in the ordinary course of business, to pay the tax due on the inventory within 30 days of the sale or transfer. If the property taxes are not paid within the required 30 days, the tax collector may, during the six-month period following the sale or transfer, levy on and attach any personal property of the person to whom the property was transferred or of the merchant's successor in business. Because of the difficulty of collecting these taxes, the Committee recommends that a merchant who transfers or sells a major portion of his inventory, other than in the ordinary course of business, be required to pay taxes due or to become due on that property before the sale or transfer. In addition, the Committee recommends that the period in which the tax collector can levy on or attach property of the transferee or successor in business be extended from six months to twelve months.

Section 9 of Appendix IV contains the recommended legislation for this proposal.

ALLOW TAX LIENS TO BE ADVERTISED SOONER

Under current law, unpaid taxes that are liens on real property must be advertised at least once during the period March 1 through June 30. Because advertising who owes overdue taxes frequently encourages the delinquent taxpayer to pay, the Committee recommends that advertisement of unpaid taxes that are liens on real property be permitted as soon as possible. To this end, the Committee recommends that both the county and city tax collector be required to report the unpaid taxes to the governing body of the taxing unit at the unit's first meeting in February and that liens be permitted to be advertised in February.

Section 10 of Appendix IV contains the recommended legislation for this proposal.

CHANGE THE TIME OF THE TAX COLLECTORS ANNUAL REPORT
AND SETTLEMENT OF PROPERTY TAXES COLLECTED

Current law requires each city and county property tax collector to make a tax collection report to the governing board of the taxing unit on or before the third Monday in June. Since the third Monday of June occurs a number of days prior to the end of the tax year (June 30), it may be impossible for tax collectors to give an accurate reporting. Current law also requires the tax collector to make a full settlement on the first Monday in July for the taxes for the previous fiscal year. The Committee feels that a more realistic approach is to require a report and settlement after July 1, but before the tax collector is charged with collecting taxes for the current fiscal year. This charge normally is made in late July or early August, prior to the mailing of tax bills.

The recommended legislation for this proposal is contained in Sections 11 and 12 of Appendix IV.

INCREASE INTEREST RATE APPLICABLE TO IN REM FORECLOSURE
FOR FAILURE TO PAY REAL PROPERTY TAXES

Six months after a tax lien on real property has been advertised, as required by G.S. 105-375, and the taxes underlying the lien remain unpaid, the governing body of a taxing unit may direct the tax collector to file a certificate with the clerk of superior court giving the name of the delinquent taxpayer, the amount of taxes due, and a description of the property subject to the lien. When the clerk of superior court docketed and indexes this certificate, the taxes, including any penalties and interest, become a judgment against the real property, and the property may subsequently be sold at an execution sale. The taxes, penalties, and interest that became a judgment bear interest at an annual rate of 6% from the date the certificate of taxes was docketed until the judgment is satisfied. This 6% rate is currently lower than the 9% interest rate applicable to late payments of property tax. The Committee felt that the interest rate applicable to overdue taxes that have been docketed as judgments and the interest rate applicable to late payments of property tax should be the same. Because the Committee is recommending that the interest rate applicable to late payments of property taxes be adjusted annually in accordance with the yield on 5-year United States Treasury Notes, however, the Committee recommends that the interest rate applicable to overdue taxes that have been docketed as judgments be a fixed rate of 12% a year.

Section 13 of Appendix IV contains the recommended legislation for this proposal.

ALLOW A TAXING UNIT TO ADD \$50.00 TO DEFRAY
ADMINISTRATIVE COSTS TO THE COSTS PAYABLE
BY A TAXPAYER IN AN IN REM FORECLOSURE

In an in rem foreclosure proceeding against real property for failure to pay taxes, the taxing unit can recover certain costs of the foreclosure incurred by the taxing unit, such as the court cost of docketing the lien and the cost of mailing and publishing the required notices to the taxpayer whose property is being foreclosed. These costs are recovered when either a foreclosure proceeding is terminated because the taxpayer paid the taxes due plus the costs incurred by the taxing unit or the property is sold at an execution sale. Although the taxing unit is allowed to recover its direct costs, it is not allowed to recover any amount for the administrative expense involved in making a foreclosure. The Committee, therefore, recommends that a charge of \$50.00 be added to the costs in an in rem foreclosure proceeding to defray administrative costs of the taxing unit in making a foreclosure.

Section 13 of Appendix IV contains the recommended legislation for this proposal.

MAKE MORE EQUITABLE THE PROVISION FOR RELEASE
AND REFUND OF PROPERTY TAX CLAIMS

Under current law tax collectors may release a taxpayer's obligation to make refunds for three reasons:

1. The tax was illegal;
2. The tax was levied for an illegal purpose; or
3. A clerical error was made by tax officials or the taxpayer.

For all three categories, the law specifies that, at the request of the taxpayer, a refund shall be granted if the refund request is made within the three-year period starting from the date the tax became due or within six months of the date the tax is paid, whichever is later.

If a taxpayer does not list his property or substantially understates the value of this property, however, and the property or understatement is subsequently discovered by the tax collector, the tax collector can collect the taxes that should have been paid on the property for the previous five years, instead of three years. Because the tax collector can recover taxes for five years but a taxpayer can only recover taxes paid because of a clerical error for three years, the Committee felt that, as a matter of fairness, refund claims based on a clerical error should be allowed for the five-year period beginning with the due date of the taxes, instead of the three-year period. The Committee also felt that claims for refund based on a clerical error should be allowed only for an error of a tax official and not the taxpayer.

Section 14 of Appendix IV contains the recommended legislation for this proposal.

LAND RECORDS APPROPRIATIONS

The Land Records Management Program of the North Carolina Department of Administration provides technical and financial assistance to counties to enable the counties to modernize land records through mapping and automation. The Committee has found that improving county land records is vital to solving problems associated with property tax administration.

This proposal makes additional appropriations of \$1,229,733 for 1985-86 and \$1,229,952 for 1986-87 for the Lands Records Management Program so that the land mapping and automation program can be complete more quickly. It also states that the 1985 General Assembly recommends that additional appropriations of at least \$1.2 million be made each year for the program through 1992-93.

The recommended legislation for this proposal is contained in Appendix V.

REQUIRE, ON A CONFIDENTIAL BASIS, THE FULL DISCLOSURE
OF SALES PRICE ON ALL REAL PROPERTY SALES

Under present law, the seller in a real estate transaction must pay a 50¢ per \$500 of value excise stamp tax when recording the deed of sale. The tax is based upon the consideration or value of the interest in the property sold, less the value of any lien or encumbrance on the property that was assumed by the buyer. In many cases the amount of consideration subject to tax equals the total sales price. In a sale that involves a loan assumption, however, the amount of the assumed loan is excluded from the value used to compute the stamp tax and tax is therefore paid on only part of the total sales price. As a result, stamp tax data is not always a reliable indication of the market price of property.

Real estate appraisers depend heavily on market sales data, especially in the appraisal of residential property. Appraisers in a private real estate practice will normally have access to reliable data through membership in a local real estate trade association, but tax office personnel will generally be limited to the use of deed stamp information.

To make a reliable appraisal using deed stamp data the tax assessor will discard "bad" sales (sales in which either the buyer or seller is not fully informed or the transaction is not "at arm's length") and transactions in which the assessor thinks

a loan assumption is involved. Loan assumption transactions represent a significant proportion of total sales. The exclusion of these sales is not a problem for sales in neighborhoods that have a high turnover rate or where the dwellings are fairly homogeneous. In other situations, however, the assessor's sample size is too small to be reliable once the suspect sales are excluded. The sample-size problem can be overcome if the actual market price of a sale is disclosed at the time the deed is recorded. For this reason, twenty-three of thirty-four states that levy a value-based deed recording tax require the disclosure of full sales price and in five of the eleven states that do not levy the deed stamp tax on the full value, there is a separate tax on mortgages.

The full disclosure proposal was recommended by the 1974, 1976, and 1981-82 property tax study commissions as part of the revaluation cycle package. The recommendation has not been enacted into law because of the desire of real estate agents and attorneys to keep such data confidential and to not increase the workload on any party in a real estate closing.

Subcommittee B discussed this problem with the N. C. Realtor's Association and the N. C. Bar Association on several occasions and looked at a number of possible disclosure forms and filing systems. Also, the subcommittee received correspondence on the matter from a number of registers of deeds.

The proposal recommended by the subcommittee would require the person recording a deed (the attorney in most cases) to stop by the county assessor's office prior to going to the register of

deeds' office. In the tax office the person would provide the address of the seller and buyer and the full sales price. The assessor would certify that the information has been provided and the person could then proceed to the register of deeds to record the deed in the usual fashion. Before actually recording the deed the register of deeds would ask the person for proof that he had been by the assessor's office, and the person would display the certification stamp or notation.

The subcommittee felt that this approach would be satisfactory to all parties because the additional paperwork and effort would be kept to a minimum. In some counties the buyer of real estate is already required to see the assessor before recording a deed. The assessor would be required to keep the price data confidential and use it only for the purpose of conducting sales/assessment ratio studies and in tax appeals and other judicial proceedings.

The 1981-82 study commission recommended that data on financing terms be required as part of the disclosure but the subcommittee felt that it should be the duty of the assessor to identify sales in which creative financing results in a sales price that is too low or too high and to do the follow-up investigative work. The same philosophy applies with regard to detecting whether any other special conditions affecting the sales price (such as mineral rights or the provision of household personal property) are a part of the transaction.

To ensure that the data provided is accurate the subcommittee proposal establishes a fine for providing false

information. To protect confidentiality, the proposal permits both fine and imprisonment of anyone in the assessor's office or the Department of Revenue who makes the price data public except as allowed by law. In addition, the proposal requires that a public employee who unlawfully discloses confidential information be dismissed from public employment and be barred from holding any public office or employment for five years.

The recommended legislation for this proposal is contained in Appendix VI.

ESTABLISH A SYSTEM OF ANNUAL INDEXING OF ALL
REAL PROPERTY AND A SIX-YEAR REVALUATION CYCLE

The most frequently voiced criticism of the current property tax system in North Carolina is the length of the mandatory real property revaluation cycle - eight years. Numerous proposals have been advanced in recent years in property tax study commission proceedings, conferences of the North Carolina Association of County Commissioners and the North Carolina League of Municipalities, and meetings of tax assessors to shorten the cycle. All of the discussions presume the use of computer-assisted mass appraisals in revaluations as the high cost of manual revaluations would rule out more frequent revaluations. If a county had adequate tax maps, parcel records, and computer equipment and programs, it would be able to revalue property as often as desired. Many counties in North Carolina are already reaching this capability. However, a full-scale revaluation still involves substantial costs and personnel time.

G.S. 105-286(b) requires counties to perform a four-year "horizontal" adjustment of tax values if a review of current market values leads the county to conclude that an adjustment "should be made to bring those values into line with then current true values". To date, no counties have made such an adjustment. The law is difficult to enforce due to the lack of specificity about how far taxable values must be out-of-line to require adjustment.

Subcommittee B studied this problem in a number of meetings and drew extensively on the work of the 1981-82 study commission. That commission recommended a fourth-year update of all real property. The update would be accomplished through the use of "factoring" formulas that would adjust all values in a particular geographic area (such as a neighborhood in a city) by the same percentage. The percentage factor would be determined by an analysis by the county assessor of market sales data. Subcommittee B felt that one of the major reasons why the 1981-82 proposal failed was that the adjustment cycle was still too long. At the same time the subcommittee noted that in some states an annual factoring system is used successfully.

The subcommittee finally developed a proposal that would involve the use of nationwide real estate price changes to annually factor up all tax values. The factoring method would use a regularly published, quarterly residential real estate price index compiled by the Federal Housing Administration. Each September 1, the Secretary of Revenue would compare the nationwide index for the most recent quarter for which data was available to the same quarter for each of the immediately preceding five years and provide the result of such a calculation to all 100 counties. This calculation would yield a set of factors that would allow a county in a particular year to adjust upward or downward values established during the last revaluation. Because not all real estate changes value at the same rate as the nationwide index, the subcommittee felt that the revaluation cycle should be shortened from eight years to six years in order that the values resulting from the annual adjustment process do not

become too far out of line with actual values for a specific parcel.

The recommended legislation dealing with this proposal is contained in Appendix VII.

REQUIRE DEPARTMENT OF REVENUE TO ANNUALLY PERFORM
SALES/ASSESSMENT RATIO STUDIES AND TO FACTOR
DOWN RAILROAD PROPERTY ACCORDINGLY

The octennial revaluation cycle for real property has been of concern to legislators, city and county governing boards, and county assessors for a number of years. To remedy the problem the 1974, 1976, and 1981-82 Property Tax Study Commissions have thoroughly reviewed the issue and made legislative recommendations to shorten the cycle. This Committee has also looked at the problem and has recommended a six-year revaluation cycle with an annual adjustment mechanism based on national real estate price factors.

The other major categories of property (public service companies, tangible personal property) are adversely affected by the eight-year cycle because those properties are revalued annually.

In 1979 the General Assembly enacted legislation that in the first, third, and seventh year after a general revaluation, public service company property shall be factored down to the effective assessment level for real property if the difference between a real property and public service property is at least 15%.

Since 1980 the railroads in North Carolina have applied directly to federal district court for relief from the difference between the tax they pay on their personal property and the tax

paid on real property revalued every eight years. The remedy for relief is accorded to railroads as a result of special federal legislation. In each application the railroads have come away with relief based on a sales-assessment ratio study the railroads have introduced as evidence of the discrimination.

The time and expense involved in the court suits is substantial, both to the state and the railroads. The railroads appeared before the Committee and have proposed legislation that:

- (1) requires the Department of Revenue to make annual sales assessment ratio studies, and
- (2) requires that railroad property be factored down annually to the effective assessment level of real property in each county, unless the assessment ratio for real property is at least 95%.

The Committee recommends that the 1985 General Assembly adopt legislation encompassing the railroad proposal. The language concerning this proposal is contained in Appendix VIII.

TECHNICAL AMENDMENTS TO AGRICULTURAL USE VALUE
SYSTEM AND APPROPRIATION FOR SOIL ANALYSIS

The 1973 General Assembly enacted legislation that allows agricultural, horticultural, and forestland owned by individuals, families, or family corporations and meeting certain minimum income, size, and usage requirements to be assessed for taxation at its current use value instead of market value. The intent of the legislation was to mitigate the selling-off of family farms near urban centers for economic reasons. The legislation was first effective January 1, 1976.

Subcommittee A reviewed the problems that have begun to surface regarding the application of the new law. A major problem was highlighted during a 1981 N. C. Supreme Court case (the McElwee case). In this case the Court found that a particular county had placed excessive reliance on market sales data in arriving at use value. The county alleged that the "highest and best use" of the land was for timber production and thus market sales prices were the same as use value.

The Court ruled that an "income" approach to valuation was more in line with the intent of the 1973 legislation and that sales data could only be used if a thorough effort was made by the tax supervisor to adjust or discard sales in which non-production influences affect the sales price.

Subcommittee A of the study Committee also heard detailed discussion of the controversy surrounding the 1984 real property revaluation in Bertie County. When the schedule of values adopted in Bertie County was being discussed, farm

groups argued that the county had placed too much emphasis on sales data since many of the purchases of farmland in the county were made on the basis of speculation or other non-agricultural reasons. Tax officials argued that the best use of the land was for farming and thus use value was equal to sales prices.

Another important point is that in the statutes of five of the six states in the southeastern United States the subcommittee reviewed, the law is very clear that the only methods that can be used to determine use value are those that relate to income-generating potential.

In the course of discussions on use value, it came to the subcommittee's attention that the N. C. statutes do not prescribe the exact methodology that must be used by the counties in determining use value. Thus, there is considerable variation among counties on a number of different steps in the process.

In summary, the subcommittee found that the following major problems exist under the current application of the use value system:

1. some counties use sales data to derive use values instead of using the income approach exclusively, leading to a schedule of values that reflects potential non-agricultural returns to the purchase of farmland. This problem usually is evidenced by the use of a capitalization rate that is less than the rate that reflects the return on investment from other uses of money;

2. there is a substantial lack of uniformity across the state as to how use value is arrived at and this causes misunderstanding, ill will, and additional time and costs in complaints and appeals. One of the major reasons for this problem is that the Machinery Act does not prescribe the methods to determine use value;

3. in some counties farmers do not receive adequate notice of use value schedules; and

4. the use value law is unclear in places.

After determining the problems with the use value system, the subcommittee directed the staff to work with various groups that would be affected by changes in the use value system in developing a new system that would be more uniform and easier to understand by both taxpayers and tax administrators. The groups consulted by the staff included the following: The N. C. Association of County Commissioners, the N. C. Association of Assessing Officers, the N. C. Farm Bureau, the Ad Valorem Tax Division of the N. C. Department of Revenue, and agricultural, horticultural and forestry specialists with N. C. State University.

The proposal adopted by the subcommittee establishes a uniform statewide use value system by requiring the N. C. Department of Revenue to set values for different soil productivity groupings in the state based upon prescribed statutory methodology. In setting the values, Revenue would be required to use a fixed capitalization (return on investment) rate. Values under the system will be set each two years.

The use of biennial instead of annual adjustments should ensure more stability and should reduce the cost to the Department. It is envisioned that the Department will draw upon agricultural, soil science, forestry, and horticultural experts with state and federal agencies and N. C. State University in developing yield groupings based on soil capability, slope, and climate and to derive with market price and expense ratio assumptions.

To determine potential yield, the law will instruct Revenue to use corn and soybeans as base crops. These two crops are grown in almost all 100 counties. In counties where one of the two crops is not significant, usually the other will be; where both are grown, the potential net income is about equal. For forestland and horticultural land, values will vary according to soil groupings within each product region in the state.

The effect of the uniform system is that a particular soil will fall into the same productivity class as the same soil in other parts of the state (or region).

The biennial change in values does not mean that the eight-year real property revaluation schedule is changed. What it does mean is that whenever a particular county comes up for revaluation, the county tax assessor will use the statewide schedule in effect for that particular year. Hopefully, the use of a number of years of experience in determining potential yield, prices, and net income, and the use of biennial instead of annual adjustments to the statewide use value schedule will ensure some stability from one year to the next. If so, the fact that one county revalues in a different year than others will not mean that farmers in a particular county will be treated substantially differently from farmers in another county.

To satisfy potential constitutional problems, the subcommittee recommended that when the new system first becomes effective, it will be immediately applied to all 100 counties regardless of when the next revaluation will occur. This feature of the plan is identical to the original application of the use value law in 1976.

The Committee feels that in developing potential yields for the different soil types and expense ratios, that the Department of Revenue assume an "average" level of management. This concept is generally understood by farm research organizations, tax administrators, and soil scientists.

In deriving use value the subcommittee intends that the Revenue Department use a number of years of experience in developing potential yield, price, and expense data. Farming is a risky profession with considerable year-to-year variations in income. The use of too few years of experience means that any unusual circumstances that occur in more than one year could unduly influence values. For this reason the subcommittee recommends that minimum and maximum values be set out in the Machinery Act for each class of property and each soil grouping within a particular class.

Poundage quota allotments for tobacco and peanuts are currently accounted for in two different ways in North Carolina. In some counties the value of the allotments is incorporated into the use value of the property, especially when market sales are used in arriving at use value. In other counties a flat "per pound" method is adopted, based on prevailing rates in the county. The subcommittee recommends that the market-based, per-pound add-on approach be used, especially since farm sales data will no longer be relied on in determining use value.

Most of the counties that will undergo a real property revaluation effective January 1, 1986, have already begun preparing use value schedules. Thus the subcommittee felt that a January 1, 1987, effective date for the new system is more workable.

In addition to adopting the major overhaul of the use value system, the subcommittee discussed a number of technical changes to the Machinery Act that are designed to clarify the law and delete obsolete provisions. The changes include:

1. expanding the list of taxpayers eligible for use value treatment from real owner, spouse, siblings, or parents to the spouse plus all lineal ancestors and lineal descendants, including in-laws (Sections 4 and 5 of Appendix IX);
2. changing the physical base for eligibility purposes from a farm "tract" concept to a farm "unit" concept to allow non-contiguous tracts to be eligible as long as at least one tract consists of 10 acres or more (5 acres for horticultural land and 20 acres for forestland) and all tracts are under production using a sound management plan (Section 1 of Appendix IX);
3. allowing additional tracts to be added to a farm unit without having to meet the three-year income eligibility test, as long as the additional tracts meet other eligibility requirements (Section 1 of Appendix IX);
4. clarifying that the \$1,000 per year for three years average gross income eligibility requirement for agricultural and horticultural land means that the gross income for the total three year period must be at least \$3,000 and not \$1,000 or more each year. (Section 2 of Appendix IX);
5. deleting the requirement "that the present use of the property is its highest and best use", because the values for all eligible property will be established by the Department of Revenue (Section 1 of Appendix IX);
6. allowing a taxpayer to apply for use value treatment only once (instead of at each revaluation) and placing the burden on the taxpayer to notify the tax office of a change in eligibility (Section 6 of Appendix IX);
7. deleting obsolete language that deals with the original 1976 implementation of use value system (Section 2 of Appendix XIV).

Due to the complexity, comprehensiveness, and far-reaching effects of the use value changes developed by the subcommittee, the Committee recommends that further study be given to the proposed statewide use value system in order to iron out precise statutory language. An appropriate forum for such a review could be the House and Senate Finance Committees during the 1985 legislative session. Thus, the Committee recommends the adoption of the outline of the statewide use value system and encourages the Finance Committees to take an active role in working out the plan's details.

The Committee did develop proposed legislation to accomplish the recommended technical changes to the use value law. This language is contained in Appendix

The implementation of the new statewide use value system by the Department of Revenue will involve additional time and expense for the Department. The primary area of additional effort will be in the development of soil productivity groupings. There are over 250 different soil types throughout North Carolina and a number of counties do not have detailed soil maps. The Department does not have at present the technical expertise or manpower necessary to take the voluminous soil productivity data that is available and to use the data to construct a schedule that accurately reflects all 100 counties for agricultural, horticultural, and forestland. Such an effort would involve extensive field work in the counties.

In order to assist the Department of Revenue the Committee recommends that the Department be authorized by

the General Assembly to spend \$10,000 of additional intangibles tax revenue for the hiring of necessary expertise to develop the statewide use value system. The current activities of the Ad Valorem Tax Division of the Department of Revenue are already fully funded from the intangibles tax, as are the Property Tax Commission (statewide appeals board), the Committee's work, and a part of the property tax training effort of the Institute of Government. The additional spending authorization will be for the current fiscal year. The recommended legislation dealing with this proposal is contained in Appendix X.

COLLECTION OF AD VALOREM TAXES ON MOTOR VEHICLES

This bill creates a new state system that gives the state the responsibility for collecting property tax due on a motor vehicle when the owner of the vehicle renews his vehicle registration. The state assumes this responsibility because cities and counties currently lose about \$8 million a year from uncollected motor vehicle property tax, and when some people do not pay their taxes, it puts an unfair burden on those who do. This bill ensures that everyone will pay his tax or have his license taken away. Listed below are the major points of the bill.

1. The system will be a statewide system.
2. The city (if applicable) and county tax rate will be applied against a standard value for each vehicle.
3. Vehicles that are currently exempt from tax will continue to be so.
4. Branch agents will take checks.
5. Bad checks will be subtracted from the revenue given to the county, and the county will collect the bad checks.
6. If a county is unable to collect on a bad check, it will notify the Dept. of Motor Vehicles, which will pick up the license.
7. The county and city will reimburse the state for its costs through a per vehicle charge for collecting the tax.
8. The effective date of the program will be January 1, 1987.

The recommended bill dealing with this proposal is contained in Appendix XI.

PROPERTY TAX TECHNICAL CHANGE RECOMMENDATIONS

The 1981-82 study committee developed a package of technical change recommendations that were combined with other committee recommendations into a single bill. This bill was not enacted during the 1983 session. This Committee reviewed and modified the proposals and then combined the proposals into a single technical change package that was presented to the 1984 session in the form of a committee substitute for another property tax bill. Due to time constraints, no action was taken on the proposed committee substitute. Without additional review, the Committee recommends that the 1984 technical change package be recommended to the 1985 General Assembly with the following changes:

- (1) The removal of any technical recommendations concerning appeals, which will be inserted in the Committee's appeals bill; and
- (2) The addition of a section specifying what day is the last day for taking an action when the last day of the statutorily determined period falls on a weekend or holiday.

The recommended technical change proposals are contained in Appendix XII. The explanation of these proposals is contained in the Committee's interim report.

EXTEND CURRENT SYSTEM OF TAXATION OF PUBLIC PROPERTY
USED BY LESSEE FOR PRIVATE PURPOSES

For decades there has been some question as to whether federal, state, or local government property that is leased to an individual or business that uses the property for a private purpose is taxable. The Federal preeminence rule prevents the taxation of federal property. Article V, Section 2(3) of the North Carolina Constitution exempts state and local government property. While it is clear that state or local property used for a public purpose is exempt, there have been a number of State Supreme Court cases over the years that have tried to answer the question of whether such property used for private purposes is exempt. The decisions have vacillated from one extreme to the other. In the most recent decision (In re University of North Carolina, 1980), the Court ruled that all state and local government property is exempt regardless of use.

The 1980 decision had major consequences on counties that have large amounts of state-owned property leased to private concerns who use the property for private purposes. There has been much sentiment expressed by the members of the General Assembly that such property should be taxed. Actually, under current law counties and cities can tax the leasehold interest created when the state leases land or buildings for an amount below the market rate. The problem for the county tax assessor

is that the unique nature of the property makes it impossible to find comparable property from which market rental data can be obtained.

The 1981 General Assembly attempted to deal with this problem by enacting legislation that followed a method that has been declared legal in the courts of other states. Under this legislation, any person or business leasing federal, state, or local government property and using the property for private purposes is subject for the property tax on the leased property. The 1981 legislation originally was intended to apply to all such public property, but during legislative debate it was noted that the language would tax property leased by private companies but used for public purposes. The prime example would be public airport property that is occupied by an airline company. The discussion of the bill came up late in the 1981 session and there was not enough time to resolve the problem satisfactorily. Realizing the effect on certain counties of the exemption of leased agricultural and forestland, the General Assembly enacted a bill that taxes a lessee of governmentally-owned agricultural and forestland, who uses the property for a private purpose, as if he owned the property.

The 1981-82 study commission recommended a proposal that would go back to the original 1981 session legislation. The bill encompassing this proposal was introduced during 1983. A number of representatives of businesses that lease state and local property objected to the bill on the grounds that their operations were "in the public interest" and that in some cases governmental units had adopted special incentives to encourage

the growth and expansion of such operations. Thus, a number of exemptions were added to the bill in a subcommittee of the House Finance Committee.

The current study Committee reviewed the history of the legislation and decided to recommend the final version of the 1983 legislation, with the addition of exemptions for vending facilities operated by the visually handicapped, property at a public hospital, medical office buildings located within three miles of a public hospital, car rental agencies and restaurants at airports, and property of public service companies.

The recommended legislation for this proposal is contained in Appendix XIII.

ESTABLISH RULES REGARDING PUBLICATION OF NOTICE
OF ADOPTION OF SCHEDULES, STANDARDS, AND RULES
TO BE USED IN GENERAL REAL PROPERTY REAPPRAISAL

When a board of county commissioners adopts the schedules of values, standards, and rules to be used in the county's next general reappraisal of property, G.S. 105-317(c) requires the board to publish a notice thereof in a newspaper having general circulation in the county. The notice must state that the schedules have been adopted and that the adopted schedules can be examined in the tax assessor's office by a property owner of the county during the ten days following the date the notice is published. A property owner may appeal the adopted schedules by filing a notice of appeal with the Property Tax Commission within thirty days of the date the notice of adoption is published.

When Wilkes County made its last general reappraisal of real property in the county, the county commissioners complied with the publication requirements. However, the notice was published only once, was published twenty-seven months before the effective date of the reappraisal, and was published in small print. The North Carolina Supreme Court in In re McElwee, 304 N.C. 68(1981), held that although Wilkes County had met the statutory requirements, the notice given did not meet the requirements of due process.

To give counties more guidance in the type notice that must

be given property owners, the Committee recommends amending G.S. 105-317(c) to require that property owners be given notice of the proposed adoption of revaluation schedules and more notice of their actual adoption. The proposal also requires that a public hearing on the schedules be held before the schedules are adopted, that the notice stating the schedules have been adopted be published four times, and that the notice of adoption tell property owners of their right to appeal the schedules.

The Committee also recommends that the statutes be amended to make clear that present-use value schedules may be appealed in the same manner as true value schedules and that present-use value schedules must be adopted in accordance with the same procedure as true value standards. In addition, the Committee recommends consolidating several of the appeal statutes to clarify the appeals process. Appendix XIV. contains the recommended legislation for this proposal.

INDEXING THE PROPERTY TAX HOMESTEAD EXEMPTION

The property tax homestead exemption for the elderly and disabled is \$8,500 for taxpayers whose disposable income is \$9,000 or less. The income limit is the same for single persons and married couples. The Committee recommends modifying the exemption as follows:

1. Establishing a base excludable amount for each taxpayer whose property has qualified for the exemption and by providing that this amount cannot be less than the dollar amount of the exemption the taxpayer received the previous year. In addition, the proposal requires a taxpayer's base excludable amount to be adjusted in a reappraisal year in accordance with the change in the assessed value of his classified property.

2. Increasing the minimum amount of assessed value that is excluded from tax from \$8,500 to \$12,000.

3. Increasing the income limit for a married couple to \$15,000.

The recommended legislation dealing with this proposal is contained in Appendix XV.

EXTEND ELIGIBILITY FOR USE VALUE ASSESSMENT
TO PUBLICLY-HELD CORPORATIONS

The issue of whether public corporations should be eligible for use-value treatment, especially on forestland, has been debated in the General Assembly since the original enactment of the use-value system in 1973. The original intent of the use-value legislation was to remove one economic barrier to maintaining a family farm near urban areas. Thus, the eligibility requirements in the original law were tightly drawn and the current law is one of the strictest in the United States.

Bills proposing to make public corporations eligible for the special treatment have been defeated on the basis of the original intent of the system and the substantial fiscal impact on certain counties if the law is changed. Much of the large holdings of timberland in North Carolina is concentrated in a relatively small number of counties, and many of these counties do not have an extensive residential, commercial, or industrial tax base to make up the revenue loss that would result from allowing these lands to be assessed at use value.

The subcommittee on use value heard presentations from numerous forestry officials on the economic outlook for timber production in North Carolina and the effect of property taxes on the industry. The proponents of the proposal made the following points:

1. part of the implied intent of the 1973 legislation was the need to preserve open-space near urban centers, and the lack of use value treatment encourages owners to harvest trees at a faster rate than may be desirable from a long-range conservation point of view;

2. the growing of timber involves numerous risks and a pay-off far into the future;

3. the distinction between public corporations and family-owned corporations as an eligibility criteria is artificial (some family holdings can be very large) and unfair;

4. many other states allow public corporations to receive use value assessment;

5. denying corporations use value assessment causes public relations problems and is costly to counties in terms of appeals and judicial proceedings;

6. the deferral feature of the use value law allows local units to recoup some of the revenue lost from the application of the use value system;

7. in many counties use value is the same as market value and thus there would be no revenue loss from the proposal; and

8. the reforestation effort by landowners in North Carolina is inadequate and thus there could be a substantial shortage of this vital resource during the next 20-30 years.

For these reasons the Committee recommends that the use value treatment for forestland be extended to public corporations. In order to ensure equity in the use value system, the Committee feels that the same treatment should be extended to public corporations owning agricultural and horticultural land.

In order to minimize the long-run revenue impact on local governmental units from the change, the Committee extended the rollback period for deferred taxes from three years to five years. Another softening provision offered by the Committee in a phase-in of the new system. Under the phase-in, each county would first apply the new law during the year in which the next general real property revaluation occurs.

The recommended legislation dealing with this proposal is in Appendix XVI.

APPENDICES

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 1983
RATIFIED BILL

CHAPTER 838
HOUSE BILL 1050

AN ACT CREATING A COMMITTEE FOR A COMPREHENSIVE STUDY OF THE PROPERTY TAX SYSTEM IN NORTH CAROLINA.

The General Assembly of North Carolina enacts:

Section 1. There is established a Property Tax System Study Committee. The Committee shall consist of 16 members. The President Pro Tempore shall appoint eight members of the Senate, and the Speaker of the House shall appoint eight members of the House of Representatives to serve on the Committee. To aid the Committee in its study of the property tax, an Advisory Subcommittee shall be created to be composed of six members and to be appointed as follows: the Speaker of the House shall appoint three members, one of whom is a county commissioner, one a county tax official, and one a citizen representing the public-at-large; the President Pro Tempore of the Senate shall appoint three members, one of whom is a county commissioner, one an elected municipal official, and one a citizen representing the public-at-large. All appointments shall be made in time for the Committee to begin its work by September 15, 1983. The Speaker and President Pro Tempore of the Senate shall jointly call the first meeting to be held on a date no later than September 15, 1983.

Sec. 2. Upon its appointment, the Committee shall meet and elect from its membership a chairman and vice-chairman. Original members appointed to the Committee shall serve until the Committee makes its final report. Vacancies on the Committee shall be filled in the same manner as the original appointments were made.

Sec. 3. The Committee shall make a detailed and comprehensive study of the efficiency, effectiveness and fairness of the property tax system in North Carolina. The Committee shall examine all classes of property that comprise the property tax base, all exemptions, exclusions and preferential classifications, and the valuation of public utility property to determine whether the property tax system is fair and equitable in taxing the citizens of the State. The Committee shall review current procedures for listing and collecting taxes on personal and real property to determine how to increase the efficiency and equity of these procedures. The Committee shall examine the octennial revaluation system and evaluate the feasibility of any programs that would aid the counties in conducting more frequent revaluations.

Sec. 4. On or before February 1, 1985, the Committee shall submit a final written report of its recommendations to the General Assembly by filing the report with the Speaker of the House and President Pro Tempore of the Senate. If legislation is recommended, the Committee shall submit appropriate bills with its report. The Committee, in its discretion, may submit an

interim report to the 1984 Session of the 1983 General Assembly. The Committee shall terminate upon filing its final report.

Sec. 5. The Committee shall consult with tax officials in State and local government and may employ necessary professional and clerical assistance. The Committee is authorized to obtain assistance from the Department of Revenue and the Fiscal Research Division of the Legislative Services Commission.

Sec. 6. As an aid to the Committee in its deliberations and to determine the current effectiveness and fairness of the property tax system in North Carolina, the Department of Revenue shall furnish to the Committee the results of a sales ratio study performed under the provisions of G.S. 105-289(h). The Department of Revenue shall conduct the sales ratio study during the period July 1, 1983 through July 1, 1984 to show the level and quality of assessment in the various counties as of January 1, 1984. The results of the sales ratio study shall be only for the use of the Committee in its study and shall not be admissible in any appeal process under the provisions of Chapter 105 of the General Statutes or in any court proceeding. It shall be the duty of the county tax supervisors to furnish such information to the Department of Revenue as the Department may require to conduct the sales ratio study.

Sec. 7. The Committee shall meet in the State Legislative Building or in the Legislative Office Building.

Sec. 8. Committee members shall be paid subsistence and travel allowances at the rate established for members of the General Assembly in G.S. 120-3.1. Advisory Committee members shall be paid subsistence and travel allowances at the rate established in G.S. 138-5.

Sec. 9. The expenses of the Committee, including any expenses incurred by the Department of Revenue in making the sales ratio study, shall be paid from funds collected by the Department of Revenue under Article 7, Chapter 105 of the General Statutes. The funds so expended shall be deducted as in G.S. 105-213(a) for the costs of administering the intangibles tax. Committee expenses shall be limited to a maximum of seventy-five thousand dollars (\$75,000).

Sec. 10. This act is effective upon ratification.

In the General Assembly read three times and ratified, this the 20th day of July, 1983.

JAMES C. GREEN

James C. Green
President of the Senate

LISTON B. RAMSEY

Liston B. Ramsey
Speaker of the House of Representatives

PROPERTY TAX SYSTEM STUDY COMMITTEE

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Jacksonville, North Carolina

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Mrs. Shirley F. Phillips
Property Tax System Study Committee
Committee Clerk

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Ad Valorem Tax Division
North Carolina Department of Revenue

Butch Gunnells
North Carolina Association of County Commissioners

Ron Aycock
North Carolina Association of County Commissioners

Fred Baggett
North Carolina League of Municipalities

Will Sullivan, Tax Supervisor
Wayne County

Wayne Hooper, Chairman
Jackson County Board of Commissioners

Herschel Brown
Jacksonville, North Carolina

Bill Penny, Deputy Commissioner
Division of Motor Vehicles

Clint Abernethy, Assistant Secretary
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Don Prentiss, Attorney
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Bill Rustin
North Carolina Merchants Association

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North Carolina League of Municipalities

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High Point, North Carolina

Allen Spalt
Research Association
Rural Advancement Fund
Pittsboro, North Carolina

Anne Fratzke
North Carolina Farm Bureau

A BILL TO BE ENTITLED

AN ACT TO IMPROVE THE COLLECTION OF PROPERTY TAXES.

The General Assembly of North Carolina enacts:

Section 1. G.S. 105-321 is amended by adding a new subsection to read:

"(e) The governing body of a taxing unit may, by resolution, provide that certain tax receipts on which the total amount of taxes is less than or equal to a designated amount, not to exceed ten dollars (\$10.00), shall not be delivered to the tax collector for collection or included in his charge of items to be collected. This resolution may apply only to receipts on which there is no tax due on real property and only to taxes payable by a taxpayer for whom only one tax receipt is prepared. Taxes so treated shall not be a charge against the taxpayer in whose name the property is listed. Receipts covered by a resolution adopted pursuant to this subsection shall be retained by the taxing unit's chief accounting officer for at least a year following the close of the fiscal year during which they were prepared. A resolution adopted pursuant to this subsection shall continue in effect until amended or repealed."

Sec. 2. Article 26 of Chapter 105 of the General Statutes is amended by inserting a new section between G.S. 105-350 and 105-351 to read:

"§105-350.1. Subpoena power of tax collector.-- A tax collector may subpoena a person for examination under oath when he has reasonable grounds to believe the person has knowledge

pertinent to the collection of taxes. A tax collector may also subpoena documents when he has reasonable grounds to believe the documents contain information pertinent to the collection of taxes. A subpoena issued by a tax collector shall be signed by the head of the governing body of the taxing unit and shall be served by an officer authorized to serve subpoenas. A person who willfully fails to appear or to produce documents in response to a subpoena of a tax collector, or who willfully fails to testify concerning the subject of the inquiry when appearing in response to a subpoena of a tax collector, is guilty of a misdemeanor and is punishable by imprisonment and fine."

Sec. 3. G.S. 105-357 is amended by adding a new subsection to read:

"(c) Small Underpayments and Overpayments. The governing body of a taxing unit may, by resolution, permit its tax collector to treat small underpayments of taxes as fully paid and to not refund small overpayments of taxes unless the taxpayer requests a refund before the end of the fiscal year in which the small overpayment is made. A "small underpayment" is a payment made, other than in person, that is no more than one dollar (\$1.00) less than the taxes due on a tax receipt. A "small overpayment" is a payment made, other than in person, that is no more than one dollar (\$1.00) greater than the taxes due on a tax receipt.

Overpayments shall be used to offset underpayments. The tax collector shall keep records of all underpayments and overpayments of taxes by receipt number and amount and shall

report these payments to the governing body as part of his settlement.

A resolution authorizing adjustments of underpayments and overpayments as provided in this subsection shall:

- (1) Be adopted on or before May 1 of the year to which it is to apply;
- (2) Apply to taxes levied for all previous fiscal years;
- (3) Continue in effect until repealed by resolution of the taxing unit."

Sec. 4. G.S. 105-360(a) is rewritten to read:

"(a) Taxes levied under this Subchapter by a taxing unit are due and payable on September 1 of the fiscal year for which the taxes are levied. Taxes are payable at par or face amount if paid before January 6 following the due date. Taxes paid on or after January 6 following the due date are delinquent and are subject to interest charges. Interest accrues on taxes paid on or after January 6 as follows:

- (1) For the period January 6 to February 1, interest accrues at the rate of two percent (2%); and
- (2) For the period February 1 until the principal amount of the taxes, the accrued interest, and any penalties are paid, interest accrues at the applicable monthly rate set by the Secretary of Revenue under subsection (e)."

Sec. 5. G.S. 105-360(b) is deleted.

Sec. 6. G.S. 105-360(c) is rewritten to read:

"(c) The governing body of a taxing unit may establish a schedule of discounts applicable to taxes paid during the period July 1 through November 30 of the fiscal year for which the taxes are levied. A schedule of discounts shall:

- (1) Specify the amounts of the discounts and the periods to which the discounts apply;
- (2) Be adopted by resolution on or before May 1 preceding the due date of the taxes to which it is first to apply;
- (3) Be approved by the Local Government Commission before it is used;
- (4) Be published in a newspaper having general circulation in the taxing unit before the discount period begins; and
- (5) Continue in effect until repealed by resolution of the taxing unit.

The Local Government Commission shall disapprove any discounts it considers unreasonable. The Commission may delegate to its Secretary the authority to approve schedules of discounts."

Sec. 7. G.S. 105-360 is amended by adding a new subsection to read:

"(e) Interest Rate. On or before November 1 of each year, the Secretary of Revenue shall establish the additional monthly interest rate applicable during the following calendar year to taxes that are at least five months overdue. The monthly rate shall be one-twelfth (1/12) of the annual average interest rate on five-year United States Treasury Notes for the preceding

twelve-month period ending August 31, and shall be rounded to the nearest one-fourth of one percent ($\frac{1}{4}\%$). By November 15 of each year, the Secretary shall notify each county and municipal tax collector of the additional monthly interest rate applicable to late payments of taxes."

Sec. 8. G.S. 105-366 is amended as follows:

- (1) by deleting the words "sale of a tax lien or" in the last sentence of subsection (a);
- (2) by deleting the word "Due" in the heading to subsections (b) and (c) and substituting the word "Delinquent";
- (3) by deleting the word "due" in the first sentence of subsection (b) and substituting the word "delinquent";
- (4) by deleting the phrase "the first day of September" the first time it appears in the first sentence of subsection (c) and substituting the date "January 6";
- (5) by changing the comma after the reference "105-368" in the first sentence of subsection (c) to a period and deleting the remainder of that sentence; and
- (6) by rewriting the last sentence of subsection (c) to read:

"If the amount of taxes collected under this subsection has not yet been determined, these taxes shall be computed in accordance with G.S. 105-359 and any applicable discount shall be allowed."

Sec. 9. G.S. 105-366 is further amended as follows:

- (1) by inserting a new subdivision (9) in subsection (b)

to read as follows and by renumbering the succeeding subdivision in subsection (b) accordingly:

"(9) Personal property of a corporation transferred, other than by a bona fide sale for value, to a stockholder of the corporation or to a relative of a stockholder of the corporation . As used in this subdivision, the term 'relative' has the same meaning as in subdivision (2) of this subsection.";

(2) by deleting the phrase "30 days" in (b) (5) and (d) (3)b.;

(3) by deleting the words "six months" in (b) (5) and (d) (3)b. and substituting the words "twelve months";

(4) by deleting the phrase "Within 30 days of" in (d) (1)b. and substituting the word "Before"; and

(5) by deleting the phrase "30-day period allowed" in the last sentence of (d) (2) and substituting the phrase "sale or transfer".

Sec. 10. G.S. 105-369 is amended as follows:

(1) by rewriting the first sentence of subsection (a) to read: "At the first meeting in February of the governing body of the taxing unit, the tax collector shall report the amount of unpaid taxes that are liens on real property, and the governing body shall order the tax collector to advertise these liens.";

and

(2) by deleting the word "March" in the third sentence of subsection (c) and substituting the word "February".

Sec. 11. G.S. 105-373(a) (1) is amended by rewriting the first sentence of that subdivision to read: "After July 1 and before he is charged with taxes for the current fiscal year, the tax collector shall make a sworn report to the governing body of the taxing unit showing:

- a. A list of the persons owning real property whose taxes for the preceding fiscal year remain unpaid and the principal amount owed by each person; and
- b. A list of the persons not owning real property whose personal property taxes for the preceding fiscal year remain unpaid and the principal amount owed by each person."

Sec. 12. G.S. 105-373(a) (3) is amended by deleting the phrase "On the first Monday of July" in the first sentence of that subdivision and substituting the phrase "After July 1 and before he is charged with taxes for the current fiscal year,".

Sec. 13. G.S. 105-375 is amended as follows:

- (1) by rewriting the last sentence of subsection (c) to read:

"All costs of mailing and publication, plus a charge of fifty dollars (\$50.00) to defray administrative costs, shall be added to those set forth in subsection (b)."; and

- (2) by deleting the phrase "the rate of six percent (6%) per annum" in subsection (d) and substituting the phrase "an annual rate of twelve percent (12%)".

Sec. 14. G.S. 105-381(a) is amended as follows:

- (1) by rewriting subparagraph a. of subdivision (1) of that subsection to read:

"a. A tax imposed through a clerical error made by a tax official of the taxing unit;" and

- (2) by rewriting subdivision (3) of that subsection to read:

"(3) If the tax has been paid and it was an illegal tax or a tax levied for an illegal purpose, the taxpayer may, at any time within three years after the tax became due or within six months from the date of payment, whichever occurs later, demand a refund of the tax paid by submitting to the governing body of the taxing unit a written statement of his defense and a request for a refund.

If the tax has been paid and it was levied because of a clerical error of an official of the taxing unit, the taxpayer may, at any time within five years after the tax became due or within six months from the date of payment, whichever occurs later, demand a refund of the tax paid by submitting to the governing body of the taxing unit a written statement of his defense and a request for a refund."

Sec. 15. Sections 4, 13, and 14 of this act shall become effective July 1, 1985. The remaining sections of this act shall become effective upon ratification. Section 4 of this act shall apply to interest accruing on delinquent property taxes on or after February 1, 1986. Section 13 of this act shall apply

to tax liens docketed on or after July 1, 1985. Section 14 of this act shall apply to requests for releases or refunds of property tax claims made on or after July 1, 1985.

A BILL TO BE ENTITLED
AN ACT TO APPROPRIATE FUNDS TO HELP COUNTIES IMPROVE THEIR LAND
RECORDS.

Whereas, the property tax is the major source of revenue to local governmental units in North Carolina; and

Whereas, the property tax provides local governmental units with an important independent source of funding; and

Whereas, high rates of inflation, high interest rates, and difficult economic times in recent years have led citizens of the State to express increased concern with their property tax burden and with the octennial system of revaluation of real property; and

Whereas, the 1983-84 Property Tax System Study Committee has thoroughly studied the problems with the current revaluation system and has developed a package of improvements; and

Whereas, an essential component of this package is an eight-year schedule for improving county land records systems;
Now therefore;

The General Assembly of North Carolina enacts:

Section 1. There is appropriated from the General Fund to the Department of Administration the sum of one million two hundred twenty-nine thousand seven hundred thirty-three dollars (\$1,229,733) for the 1985-86 fiscal year and the sum of one million two hundred twenty-nine thousand nine hundred fifty-two dollars (\$1,229,952) for the 1986-87 fiscal year to accelerate

the implementation of the statewide program to improve county land records established by G.S. 102-15 through 102-17, known as the Land Records Management Program. This appropriation is in addition to all other appropriations to the Department and shall be administered in accordance with G.S. 102-15 through 102-17.

Sec. 2. The 1985 General Assembly recommends that additional appropriations for the Land Records Management Program of the Department of Administration, G.S. 102-15 through 102-17, be made for each fiscal year through fiscal year 1992-93 and that each year's appropriation be at least one million two hundred thousand dollars (\$1,200,000).

Sec. 3. This act shall become effective July 1, 1985.

A BILL TO BE ENTITLED

AN ACT TO REQUIRE REAL PROPERTY TRANSFER DISCLOSURE STATEMENTS.

The General Assembly of North Carolina enacts:

Section 1. Article 8E of Chapter 105 of the General Statutes is amended by adding a new section to read:

"§ 105-228.37. Real property transfer disclosure statement.--(a) Requirement. When real property is conveyed, either in fee simple or a lesser interest, and the instrument conveying the property is subject to the excise stamp tax levied by G.S. 105-228.30, the grantee of the property must file with the county assessor a real property transfer disclosure statement describing that transfer before the instrument may be recorded with the register of deeds. A register of deeds may not accept for recordation an instrument for which a real property transfer disclosure statement is required unless the instrument bears the assessor's stamp indicating that the required disclosure statement has been filed.

(b) Content of Statement. A real property transfer disclosure statement shall contain:

- (1) The name and address of the seller or grantor;
- (2) The name and address of the buyer or grantee; and

- (3) The total consideration given for the property, including the amount of any loan assumed by the grantee or buyer.

(c) Confidentiality of Statement. A real property transfer disclosure statement is not open to inspection by the public. It shall, however, be made available to the Department of Revenue upon request. A disclosure statement may be used only by the assessor or the Department of Revenue in making a sales-assessment ratio study, developing schedules of value, or defending appraisals in administrative or judicial proceedings. It is unlawful for a local tax official or an officer or employee of the Department of Revenue to disclose information in a real property transfer disclosure statement for a purpose other than the purposes listed in this subsection.

(d) Penalties. Anyone who knowingly makes a false statement on a disclosure statement is guilty of a misdemeanor and is punishable by a fine. Anyone who unlawfully discloses information in a disclosure statement is guilty of a misdemeanor and is punishable by imprisonment for two years and a fine of not less than two hundred dollars (\$200.00) and not more than one thousand dollars (\$1,000). In addition, a public employee who unlawfully discloses information in a disclosure statement shall be dismissed from public employment and shall be forbidden to hold any public office or employment in this State for five years."

Sec. 2. This act shall become effective January 1, 1986.

A BILL TO BE ENTITLED

AN ACT TO SHORTEN THE REAPPRAISAL CYCLE TO SIX YEARS AND TO REQUIRE ANNUAL ADJUSTMENTS TO REAL PROPERTY VALUES.

The General Assembly of North Carolina enacts:

Section 1. G.S. 105-286 is rewritten to read:

"§ 105-286. Sexennial reappraisal of real property; annual factored adjustments.-- (a) Sexennial Reappraisals. Unless a county advances the year of a general reappraisal, as provided in subsection (b), each county of the State shall reappraise all real property in the county as of January 1 of the year prescribed in the following schedule and as of January 1 of every sixth year thereafter:

Schedule of Initial Reappraisals

Division I - 1986: Alexander, Anson, Avery, Beaufort, Brunswick, Clay, Craven, Davie, Duplin, and Granville.

Division II - 1987: Burke, Chatham, Graham, Hertford, Hyde, Johnston, McDowell, Mecklenburg, Moore, Orange, Pender, Rockingham, Sampson, Scotland, Transylvania, Watauga, and Wayne.

Division III - 1988: Camden, Cherokee, Cleveland, Cumberland, Guilford, Harnett, Haywood, Lee, Montgomery, Northampton, Pamlico, and Robeson.

Division IV - 1989: Caldwell, Carteret, Columbus, Currituck, Davidson, Gaston, Greene, Lenoir, Madison, Pitt, Richmond, Swain, Tyrrell, and Washington.

Division V - 1990: Ashe, Bertie, Buncombe, Caswell, Chowan,

Franklin, Forsyth, Henderson, Hoke, Iredell, Jackson, Jones, Lincoln, Onslow, Pasquotank, Person, Perquimans, Rowan, Rutherford, Stokes, Union, Vance, Wake, Wilson, and Yancey.
Division VI - 1991: Alamance, Alleghany, Bladen, Carbarus, Catawba, Dare, Durham, Edgecombe, Gates, Halifax, Macon, Martin, Mitchell, Nash, New Hanover, Polk, Randolph, Stanly, Surry, Warren, Wilkes, and Yadkin.

(b) Advancing Scheduled Reappraisal. The board of county commissioners of a county may advance the date of the next reappraisal of real property in the county or adopt a reappraisal cycle of less than six years by adopting a resolution to do so. A resolution advancing the reappraisal of property in a county or establishing a reappraisal cycle of less than six years shall be sent promptly to the Department of Revenue. When a county advances a reappraisal and does not adopt a shorter cycle, its next reappraisal shall be made in the sixth year after the advanced date, unless the board of commissioners of the county again advances the county's reappraisal schedule or subsequently establishes a shorter cycle.

(c) Annual Adjustments. As of January 1 of each year for which real property in a county is not reappraised, the county shall adjust its assessed real property values established during its most recent reappraisal by multiplying the assessed value of each parcel by the applicable real estate factor set by the Department of Revenue under G.S. 105-289(j)."

Sec. 2. G.S. 105-289 is amended by adding a new subsection to read:

"(j) On or before September 1 of each year, to establish the real estate factors to be used by counties in making the annual adjustments required by G.S. 105-286(c), and to notify each assessor of the factor applicable to his county. The real estate factors shall be price factors based on data reported by the Federal Housing Administration of the United States Department of Housing and Urban Development. Each factor shall be a number, the numerator of which is the average sales price per square foot, for the most recent quarter for which data is available, for property sold for which a mortgage on the property was insured by the Federal Housing Administration; and the denominator of which is the average sales price per square foot for this type property for the same quarter, as the quarter used in the numerator, of the year in which a Division of counties made its most recent reappraisal of property."

Sec. 3. The first sentence of G.S. 105-342(c)(1) is amended by deleting the word "seventh" and substituting the word "fifth".

Sec. 4. This act shall become effective for taxable years beginning on or after January 1, 1986.

A BILL TO BE ENTITLED

AN ACT TO REQUIRE THE DEPARTMENT OF REVENUE TO CONDUCT ANNUAL SALES-RATIO STUDIES AND TO ADJUST THE APPRAISED VALUE OF REAL AND PERSONAL SYSTEM PROPERTY OF A RAILROAD IN ACCORDANCE WITH THESE STUDIES.

The General Assembly of North Carolina enacts:

Section 1. G.S. 105-284 is rewritten to read:

"§ 105-284. Uniform assessment standard. Except as otherwise provided in G.S. 105-340, all property, real and personal, shall be assessed for taxation at the valuation established under G.S. 105-283, and taxes levied by all counties and municipalities shall be levied uniformly on assessments determined as provided in this section."

Sec. 2. G.S. 105-289(h) is rewritten to read:

"(h) To make annual studies of the ratio of the assessed value of real property to its true value in each county, according to generally accepted principles and procedures for conducting such studies; to establish for each county the median ratio as determined by such studies for each calendar year; and to publish the results of such studies annually. The median ratio for each county is considered to be the median ratio for each local taxing unit located within the county."

Sec. 3. G.S. 105-296 is amended by adding a new subsection to read:

"(j) He shall furnish such information to the Department of Revenue as the Department of Revenue may require to conduct the annual studies required by G.S. 105-289(h)."

Sec. 4. G.S. 105-340(a) and (b) are rewritten to read:

"(a) Having determined the appraised valuation of the nondistributable system property of a railroad company, the Department of Revenue shall multiply the appraised valuation by the median ratio for the preceding year for each respective local taxing unit as determined pursuant to G.S. 105-289(h), and shall certify the resulting valuations for taxation to the local taxing units in which such property is situated in the same manner as is provided for nonsystem property in G.S. 105-339. If the median ratio for a local taxing unit is greater than or equal to 95%, then for purposes of this subsection, the median ratio is considered to be 100%.

(b) Having determined the appraised valuation of the distributable system property of a railroad company and having allocated the valuations in accordance with G.S. 105-338(b)(1), the Department of Revenue shall multiply those allocations by the median ratio for the preceding year for each respective local taxing unit as determined pursuant to G.S. 105-289(h), and shall then certify the resulting allocations to the local taxing units to which such amounts are due. If the median ratio for a local taxing unit is greater than or equal to 95%, then for purposes of this subsection, the median ratio is considered to be 100%."

Sec. 5. This act shall become effective for taxable years beginning on or after January 1, 1986.

A BILL TO BE ENTITLED
AN ACT TO CLARIFY THE TYPE LAND THAT QUALIFIES FOR TAXATION AT
ITS PRESENT-USE VALUE AND TO MAKE TECHNICAL CHANGES CONCERNING
THE ELIGIBILITY FOR PRESENT-USE VALUE TAXATION.

The General Assembly of North Carolina enacts:

Section 1. G.S. 105-277.2(1), (2), (3), (4), and (6)
are rewritten to read:

"(1) 'Agricultural land' means land constituting a farm unit actively engaged in the commercial production or growing of crops, plants, or animals under a sound management program. Agricultural land includes woodland and wasteland that is a part of the unit. A farm unit may consist of more than one tract of agricultural land, but at least one of the tracts must meet the minimum size requirement in G.S. 105-277.3(a)(1).

(2) 'Forestland' means land constituting a forest unit actively engaged in the commercial growing of trees under a sound management program. Forestland includes wasteland that is a part of the unit. A forest unit may consist of more than one tract of forestland, but at least one of the tracts must meet the minimum size requirement in G.S. 105-277.3(a)(3).

(3) 'Horticultural land' means land constituting a horticultural unit actively engaged in the commercial production or growing of fruits or vegetables or nursery or floral products under a sound management program. Horticultural land includes woodland and wasteland that is a part of the unit. A horticultural unit may consist of more than one tract of

horticultural land, but at least one of the tracts must meet the minimum size requirement in G.S. 105-277.3(a)(2).

(4) 'Individually owned' means owned by:

a. A natural person; or

b. A corporation having as its principal business one of the activities described in subdivisions (1), (2), and (3) and whose shareholders are all natural persons actively engaged in the business of the corporation or a relative of a shareholder who is actively engaged in the business of the corporation.

(5) 'Sound management program' means a program of production designed to obtain the greatest net return from the land consistent with its conservation and long-term improvement. Sound management practices under such a program require that at least eighty-five percent (85%) of the land, excluding land in a government program designed to be left idle, be in actual production."

Sec. 2. G.S. 105-277.3(a) is amended by rewriting subdivisions (1) and (2) to read:

"(1) Individually owned agricultural land consisting of 10 acres or more and having a total gross income of at least three thousand dollars (\$3,000) for the three years preceding January 1 of the year for which the benefit of this section is claimed. Gross income includes income from the sale of the agricultural products produced from the land and any payments received under a governmental soil conservation or land retirement program.

(2) Individually owned horticultural land consisting of 5 or more acres and having a total gross income of at least three

thousand dollars (\$3,000) for the three years preceding January 1 of the year for which the benefit of this section is claimed.

Gross income includes income from the sale of the horticultural products produced from the land and any payments received under a governmental soil conservation or land retirement program."

Sec. 3. G.S. 105-277.3(b) (2) is rewritten to read:

"(2) Have been owned by the current owner or a relative of the current owner for the four years preceding January 1 of the year for which the benefit of this section is claimed."

Sec. 4. G.S. 277.2 is amended by adding a new subdivision (6) to read as follows and by renumbering the succeeding subdivision accordingly:

"(6) 'Relative' means:

- a. A spouse;
- b. A lineal ancestor;
- c. Lineal issue;
- d. A sibling; or
- e. A spouse of a person listed in paragraphs b. through e."

Sec. 5. The third sentence of G.S. 105-277.4(c) is amended by deleting the phrase "spouse, child or sibling" and substituting the word "relative" and by deleting the phrase "such an enumerated family member" and substituting the words "a relative".

Sec. 6. The last sentence of G.S. 105-277.4(a) is amended by inserting a period after the word "required" and deleting the remainder of that sentence.

Sec. 7. This act is effective upon ratification.

A BILL TO BE ENTITLED

AN ACT TO APPROPRIATE FUNDS TO DEVELOP A UNIFORM SCHEDULE FOR
DETERMINING THE PRESENT-USE VALUE OF LAND BASED ON SOIL TYPE
AND PRODUCTIVITY.

The General Assembly of North Carolina enacts:

Section 1. There is appropriated from the General Fund to the Department of Revenue the sum of ten thousand dollars (\$10,000) for fiscal year 1984-85 to be used by the Department's Ad Valorem Tax Division to establish yield ratings and index values for each soil phase in the State, which will be used in developing a uniform Statewide method of taxing land that qualifies for taxation at its present-use value according to soil type and productivity. This appropriation shall be charged to intangible tax revenue in accordance with G.S. 105-213(a) (3).

Sec. 2. This act is effective upon ratification.

A BILL TO BE ENTITLED
AN ACT TO IMPROVE THE COLLECTION OF PROPERTY TAXES ON MOTOR
VEHICLES BY REQUIRING THAT THESE TAXES BE PAID WHEN A VEHICLE
REGISTRATION IS RENEWED.

The General Assembly of North Carolina enacts:

Section 1. Subchapter II of Chapter 105 of the General
Statutes is amended by inserting a new Article between Articles
22 and 23 to read:

"Article 22A.

"Classified Motor Vehicles.

"§ 105-329. Definitions.--The following definitions apply
in this Article:

- (1) Classified Motor Vehicle. A motor vehicle that is
classified under G.S. 105-330.
- (2) Division of Motor Vehicles. The Division of Motor
Vehicles of the Department of Transportation.
- (3) Passenger Vehicles. Defined in G.S. 20-4.01(27).
- (4) Property-Hauling Vehicles. Defined in G.S.
20-4.01(31).
- (5) Public Service Company. Defined in G.S. 105-333(14).

"105-330. Certain motor vehicles classified.--Pursuant to
Article V, §2(3) of the North Carolina Constitution,
property-hauling vehicles licensed for 4,000 pounds gross weight

and passenger vehicles are designated a special class of property. These vehicles shall be listed and appraised as provided in this Article, and taxes on these motor vehicles shall be collected as provided in this Article.

"105-331. Ownership, situs, and appraisal of classified vehicles.--(a) Determination Dates. The value of a classified motor vehicle shall be determined annually as of January 1. The ownership and situs of a classified motor vehicle shall be determined as of the day on which the vehicle's current vehicle registration expires.

(b) Situs. The tax situs of a classified motor vehicle shall be determined in accordance with G.S. 105-304. A classified motor vehicle whose owner's street address is in a city or county is presumed to have a tax situs in that city or county and is subject to that city's or county's taxes, unless the assessor has determined the situs of the vehicle to be outside the city or county.

(c) Appraisal. The appraised value of a classified motor vehicle shall be determined in accordance with the true-value appraisal standard prescribed by G.S. 105-283. As an aid in appraising classified motor vehicles, the Division, with the assistance of the Department of Revenue, shall annually adopt or prepare a manual that establishes a standard value for the year, make, and model of all classified motor vehicles. The Division shall adhere to this manual in computing the amount of tax due on a classified motor vehicle.

"105-332. Determination of vehicles exempt from tax.-- A classified motor vehicle that is exempt or excluded from tax under this Subchapter is not subject to tax under this Article. An owner of a motor vehicle that is not subject to tax shall apply to the assessor for an exemption certificate stating that the vehicle is exempt from tax. The Division shall collect tax on a motor vehicle the owner claims is exempt unless the owner furnishes the Division an exemption certificate for the vehicle. When the Division receives an exemption certificate for a vehicle, the Division shall consider the vehicle exempt from tax until the vehicle is transferred to another person or an assessor notifies the Division that the vehicle is no longer exempt.

"105-332.1. Appeals concerning appraisal, situs, or taxability.-- (a) Procedure. The assessor shall decide all questions concerning the appraisal, situs, or taxability of a classified motor vehicle. An owner of a classified motor vehicle may appeal a decision of the assessor concerning the appraisal, situs, or taxability of his vehicle in the same manner as other decisions of the assessor concerning the taxpayer's personal property. Accordingly, he may appeal an assessor's decision to the board of equalization and review or the board of county commissioners, as appropriate.

(b) Payment Required. A taxpayer who contests an initial appraisal of a classified motor vehicle or a decision of the assessor shall pay the tax on the motor vehicle when due, subject to a full or partial refund in the event the appeal is decided in his favor.

"105-332.2. When taxes are due; tax rate.--(a) Due Date.

Taxes on a classified motor vehicle are due each year on the date the vehicle's current vehicle registration expires. A taxpayer shall therefore pay tax on any classified motor vehicle he owns on the date his current vehicle registration expires, regardless of how long he has owned the vehicle.

(b) Rate. Taxes on classified motor vehicles shall be levied at the property tax rates established by the taxing units in which the vehicle is situated. The tax rate applicable to classified motor vehicles shall change on a calendar year basis instead of a fiscal year basis. Accordingly, for taxes due in the first six months of a calendar year, the tax rate shall be the rate established by the taxing unit for the current fiscal year, and for taxes due in the last six months of a calendar year, the tax rate shall be the rate established by the taxing unit for the previous fiscal year.

(c) District Taxes Inapplicable. Classified motor vehicles are not subject to taxes levied by special service districts. Special service district taxes may not be included in a city or county tax rate applied to classified motor vehicles.

(d) Prepayment Discount Inapplicable. Discounts for prepayment of taxes do not apply to taxes on classified motor vehicles.

"105-332.3. Division to collect taxes; late payment penalty.--(a) Collection. The Division shall collect taxes on classified motor vehicles when it collects a vehicle registration fee for a renewed vehicle registration. The Division may not

renew a vehicle registration until the taxes levied on the vehicle the applicant owns on the date his registration expires are paid.

(b) Late Payment Penalty. A late payment penalty of three dollars (\$3.00) shall be added to taxes paid more than 30 days after they are due. The Division shall collect applicable late payment penalties when it collects late payments of taxes.

"105-332.4. Charge for collecting taxes on classified vehicles.-- The Division shall estimate its cost for collecting taxes on classified motor vehicles for a fiscal year and shall establish a per transaction charge for collecting these taxes. This charge shall be set at an amount that will enable the Division to recoup its cost and shall be charged regardless whether a check made payable to the Division for the taxes is subsequently dishonored. Per transaction charges shall be deducted by the Division from the amount of taxes collected on behalf of a taxing unit. When the Division collects taxes on behalf of both a city and county, the Division shall apportion the charge between the city and county in proportion to the amount of taxes collected for each.

"105-332.5. Distribution of tax revenue.-- On or before the 15th of each month, the Division shall distribute to each taxing unit the amount of taxes collected during the preceding month on classified motor vehicles having a tax situs in the taxing unit, less the per transaction charge authorized by G.S. 105-332.4 and the amount of registration fees for vehicles situated in the taxing unit that have been determined to be uncollected during

that month because a check tendered earlier by a taxpayer for the registration fee and taxes has been dishonored.

"105-332.6. County to collect dishonored checks and unpaid taxes; enforcement remedies.--(a) Checks. The Division shall endorse all dishonored checks made payable to the Division for a registration fee and taxes on a classified motor vehicle and shall turn the checks over to the appropriate tax collector for collection. In collecting on dishonored checks, the county may add the ten percent (10%) penalty, allowed by G.S. 105-357 for worthless checks, to the amount it collects. When the county tax collector collects only part of the amount of fees and taxes due, the partial collection shall be applied, in order, to the registration fee due and any penalties, and shall then be prorated accordingly between the county and city.

(b) Remedies. Unpaid taxes on a classified motor vehicle may be collected by the tax collector by a levy on the motor vehicle or on any other personal property of the owner of the vehicle pursuant to G.S. 105-366 and 105-367, or by garnishment of the owner's property pursuant to G.S. 105-368. Taxes on classified motor vehicles do not become a lien on any real property owned by the taxpayer.

(c) Vehicle Registration Revoked. Each tax collector shall notify the Division of any check turned over to the tax collector for collection that remains uncollected 60 days after the tax collector received the check. Upon notification, the Division shall take possession of the registration card and plate issued

renew a vehicle registration until the taxes levied on the vehicle the applicant owns on the date his registration expires are paid.

(b) Late Payment Penalty. A late payment penalty of three dollars (\$3.00) shall be added to taxes paid more than 30 days after they are due. The Division shall collect applicable late payment penalties when it collects late payments of taxes.

"105-332.4. Charge for collecting taxes on classified vehicles.-- The Division shall estimate its cost for collecting taxes on classified motor vehicles for a fiscal year and shall establish a per transaction charge for collecting these taxes. This charge shall be set at an amount that will enable the Division to recoup its cost and shall be charged regardless whether a check made payable to the Division for the taxes is subsequently dishonored. Per transaction charges shall be deducted by the Division from the amount of taxes collected on behalf of a taxing unit. When the Division collects taxes on behalf of both a city and county, the Division shall apportion the charge between the city and county in proportion to the amount of taxes collected for each.

"105-332.5. Distribution of tax revenue.-- On or before the 15th of each month, the Division shall distribute to each taxing unit the amount of taxes collected during the preceding month on classified motor vehicles having a tax situs in the taxing unit, less the per transaction charge authorized by G.S. 105-332.4 and the amount of registration fees for vehicles situated in the taxing unit that have been determined to be uncollected during

that month because a check tendered earlier by a taxpayer for the registration fee and taxes has been dishonored.

"105-332.6. County to collect dishonored checks and unpaid taxes; enforcement remedies.--(a) Checks. The Division shall endorse all dishonored checks made payable to the Division for a registration fee and taxes on a classified motor vehicle and shall turn the checks over to the appropriate tax collector for collection. In collecting on dishonored checks, the county may add the ten percent (10%) penalty, allowed by G.S. 105-357 for worthless checks, to the amount it collects. When the county tax collector collects only part of the amount of fees and taxes due, the partial collection shall be applied, in order, to the registration fee due and any penalties, and shall then be prorated accordingly between the county and city.

(b) Remedies. Unpaid taxes on a classified motor vehicle may be collected by the tax collector by a levy on the motor vehicle or on any other personal property of the owner of the vehicle pursuant to G.S. 105-366 and 105-367, or by garnishment of the owner's property pursuant to G.S. 105-368. Taxes on classified motor vehicles do not become a lien on any real property owned by the taxpayer.

(c) Vehicle Registration Revoked. Each tax collector shall notify the Division of any check turned over to the tax collector for collection that remains uncollected 60 days after the tax collector received the check. Upon notification, the Division shall take possession of the registration card and plate issued

for a vehicle for whose registration fee and taxes the uncollectible check was tendered.

"105-332.7. Public service company vehicles.-- This Article does not apply to classified motor vehicles owned by a public service company. Classified motor vehicles owned by a public service company shall be appraised by the Department of Revenue, and taxes on these vehicles shall be collected in the same manner as other taxes on personal property owned by a public service company."

Sec. 2. G.S. 20-1 is amended by adding a new paragraph at the end of that section to read:

"The Division shall collect property taxes on certain motor vehicles in accordance with Article 22A of Chapter 105."

Sec. 3. G.S. 20-45 is amended by adding a new subsection to read:

"(c) Notwithstanding subsection (b), the Division shall take possession of any registration card or plate issued for a vehicle when notified by a county tax collector that a check tendered for payment of the renewal registration fee and property taxes for the vehicle remains uncollected by the tax collector after 60 days."

Sec. 4. G.S. 20-66(a) is amended by adding a new sentence at the end of that subsection to read:

"The Division may accept checks in payment of vehicle registration fees and property taxes collected by the Division in accordance with Article 22A of Chapter 105."

Sec. 5. This act shall become effective January 1, 1987, and shall first apply to taxes levied for the 1987-88 fiscal year.

SESSION 19__

INTRODUCED BY:

Referred to:

A BILL TO BE ENTITLED

AN ACT TO MAKE TECHNICAL AMENDMENTS TO THE MACHINERY ACT.

The General Assembly of North Carolina enacts:

Section 1. G.S. 105-277.8 is rewritten to read:

"§105-277.8. Taxation of property of nonprofit homeowners' association.--(a) The value of real and personal property owned by a nonprofit homeowners' association shall be included in the appraisals of property owned by members of the association and shall not be assessed against the association if:

- (1) All property owned by the association is held for the use, benefit, and enjoyment of all members of the association equally;
- (2) Each member of the association has an irrevocable right to use and enjoy, on an equal basis, all property owned by the association, subject to any restrictions imposed by the instruments conveying the right or the rules, regulations, or bylaws of the association; and
- (3) Each irrevocable right to use and enjoy all

1 property owned by the association is appurtenant
2 to taxable real property owned by a member of the
3 association.

4 The assessor may allocate the value of the association's
5 property among the property of the association's members on
6 any fair and reasonable basis.

7 (b) As used in this section, 'nonprofit homeowners'
8 association' means a homeowners' association as defined in
9 § 528(c) of the Internal Revenue Code."

10 Sec. 2. G.S. 105-278.1(b) is rewritten to read:

11 "(b) Real and personal property belonging to the
12 State, counties, and municipalities is exempt from
13 taxation."

14 Sec. 3. G.S. 105-282.1(a) is amended as follows:

- 15 (1) by deleting the third sentence of that
16 subsection;
- 17 (2) by deleting the number and punctuation "(13)," in
18 subdivision (2) of that subsection; and
- 19 (3) by rewriting subdivision (4) to read:

20 "(4) Upon a showing of good cause by the applicant
21 for failure to make a timely application, an
22 application for exemption or exclusion filed
23 after the close of the regular listing period may
24 be approved by the board of equalization and
25 review, the board of county commissioners, or the
26 governing body of a municipality, as appropriate.
27 An untimely application for exemption or
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2 exclusion approved under this subdivision applies
3 only to property taxes levied by the county or
4 municipality in the calendar year
5 in which the untimely application is filed."

6 Sec. 4. The first sentence of G.S. 105-282.1(c)
7 is rewritten to read:

8 "When an owner of property that may be eligible for
9 exemption or exclusion neither lists the property nor files
10 an application for exemption or exclusion, the assessor
11 shall proceed to discover the property as provided in G.S.
12 105-312."

13 Sec. 5. The first sentence of G.S. 105-290(b) is
14 rewritten to read:

15 "The Property Tax Commission shall hear and decide
16 appeals from decisions concerning the listing, appraisal,
17 or assessment of property made by county boards of
18 equalization and review and boards of county
19 commissioners."

20 Sec. 6. The first sentence of G.S. 105-290(b) (2)
21 is rewritten to read:

22 "When an appeal is filed, the Property Tax Commission
23 shall provide a hearing before representatives of the
24 Commission or the full Commission as specified in this
25 subdivision."

26 Sec. 7. G.S. 105-325(a) (5) is amended by
27 deleting the period at the end of that subdivision and
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1 adding the phrase "or property exempted or excluded from
2 taxation pursuant to G.S. 105-282.1(a)(4)."

3 Sec. 8. The first sentence of G.S. 105-285(c) is
4 rewritten to read:

5 "The value, ownership, and place of taxation of
6 inventories held and used in connection with the
7 mercantile, manufacturing, producing, processing, or other
8 business enterprise of a taxpayer who has a place of
9 business in this State and whose fiscal year ends on a date
10 other than December 31 shall be determined annually as of
11 the ending date of the taxpayer's latest completed fiscal
12 year."

13 Sec. 9. G.S. 105-287 is rewritten to read:

14 "§105-287. Changing appraised value of real property
15 in years in which general reappraisal or horizontal
16 adjustment is not made.--(a) In a year in which a general
17 reappraisal or horizontal adjustment of real property in
18 the county is not made, the assessor shall increase or
19 decrease the appraised value of real property, as
20 determined under G.S. 105-286, to:

- 21 (1) Correct a clerical or mathematical error;
22 (2) Correct an appraisal error resulting from a
23 misapplication of the schedules, standards, and
24 rules used in the county's most recent general
25 reappraisal or horizontal adjustment; or
26 (3) Recognize an increase or decrease in the value
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2 of the property resulting from a factor other
3 than those listed in subsection (b).

4 (b) In a year in which a general reappraisal or
5 horizontal adjustment of real property in the county is not
6 made, the assessor may not increase or decrease the
7 appraised value of real property, as determined under G.S.
8 105-286, to recognize a change in value caused by:

- 9 (1) Normal, physical depreciation of improvements;
10 (2) Inflation, deflation, or other economic changes
11 affecting the entire county;
12 (3) Betterments to the property made by:
13 a. Repainting buildings or other structures;
14 b. Terracing or other methods of soil
15 conservation;
16 c. Landscape gardening;
17 d. Protecting forests against fire;
18 e. Impounding water on marshland for
19 noncommercial purposes to preserve or
20 enhance the natural habitat of wildlife.

21 (c) An increase or decrease in the appraised value of
22 real property authorized by this section shall be made in
23 accordance with the schedules, standards, and rules used in
24 the county's most recent general reappraisal or horizontal
25 adjustment. An increase or decrease in appraised value
26 made under this section is effective as of January 1 of the
27 year in which it is made and is not retroactive. This
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section does not modify or restrict the provisions of G.S. 105-312 concerning the appraisal of discovered property.

(d) Notwithstanding subsection (a), if a tract of land has been subdivided into lots and more than five acres of the tract remain unsold by the owner of the tract, the assessor may appraise the unsold portion as land acreage rather than as lots. A tract is considered subdivided into lots when the lots are located on streets laid out and open for travel and the lots have been sold or offered for sale as lots since the last appraisal of the property."

Sec. 10. G.S. 105-289 is amended as follows:

(1) by deleting the words "county and municipal" in subdivision (d)(1) and substituting the word "local";

(2) by rewriting subsection (e) to read:

"(e) The Department of Revenue may furnish the following information to a local tax official:

- (1) Information contained in a report to it or to any other State department; and
- (2) Information the Department has in its possession that may assist a local tax official in securing complete tax listings, appraising or assessing taxable property, collecting taxes, or presenting information in administrative or judicial proceedings involving the listing, appraisal, or assessment of property.

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2 A local tax official may use information obtained from
3 the Department under this subsection only for the purposes
4 stated in subdivision (2). A local tax official may not
5 divulge or make public this information except as required
6 in administrative or judicial proceedings under this
7 Subchapter. A local tax official who makes improper use of
8 or discloses information obtained from the Department under
9 this subsection is punishable as provided in G.S. 105-259.

10 The Department may not furnish information to a local
11 tax official pursuant to this subsection unless it has
12 obtained a written certification from the official stating
13 that he is familiar with the provisions of both this
14 subsection and G.S. 105-259 and that information obtained
15 from the Department under this subsection will be used only
16 for the purposes stated in subdivision (2)."; and

17 (3) by rewriting subsection (f) to read:

18 "(f) To advise local tax officials of their duties
19 concerning the listing, appraisal, and assessment of
20 property and the levy and collection of property taxes."

21 Sec. 11. G.S. 105-273 is amended by adding a
22 new subdivision (11) to read as follows and by renumbering
23 the succeeding subdivisions accordingly:

24 "(11) 'Local tax official' includes a county
25 assessor, an assistant county assessor, a member
26 of a county board of commissioners, a member of a
27 county board of equalization and review, a county
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1 tax collector, and the municipal equivalents of
2 these officials."

3 Sec. 12. G.S. 105-289.1(b) is amended by
4 deleting the phrase "taxing authority (as defined in G.S.
5 105-289(e))" and substituting the words "tax official".

6 Sec. 13. G.S. 105-259 is amended as follows:

7 (1) by deleting subpart (ii) in the first sentence of
8 that section and inserting two new subparts to
9 read:

10 "(ii) local tax officials, as defined in G.S. 105-273,
11 and former local tax officials; (iii) members
12 and former members of the Property Tax
13 Commission;"

14 (2) by renumbering subparts (iii) and (iv) of the
15 first sentence of that section as (iv) and (v)
16 respectively; and

17 (3) by deleting the word "authority" each time it
18 appears in the first sentence of the fourth
19 paragraph of that section and substituting the
20 word "official".

21 Sec. 14. G.S. 105-289(d) (2) and (3) are
22 rewritten to read:

23 "(2) A program for testing the qualifications of an
24 assessor and other persons engaged in the
25 appraisal of property for a county or
26 municipality; and
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2 (3) A certification program for an assessor and
3 other persons engaged in the appraisal of
4 property for a county or municipality."

5 Sec. 15. G.S. 105-328(b) (1) is amended by
6 deleting the fourth and fifth sentences of that subdivision
7 and substituting the following sentence to read:

8 "A person appointed as a municipal assessor shall meet the
9 qualifications and requirements set for a county assessor
10 under G.S. 105-294."

11 Sec. 16. G.S. 105-273(10) is repealed.

12 Sec. 17. G.S. 105-296 is amended as follows:

- 13 (1) by deleting the words "and appraising" in the
14 first sentence of that section and substituting
15 the phrase ", appraisal, and assessment";
16 (2) by deleting the words "or she" and the words "or
17 her respective" in subsection (b) of that
18 section; and
19 (3) by deleting subsections (d), (e), (f), and (i).

20 Sec. 18. G.S. 105-298 is repealed.

21 Sec. 19. G.S. 105-303 (b) (2) and 105-308 are
22 each amended by deleting the phrase "(or proper list
23 taker)".

24 Sec. 20. The last paragraph of G.S. 105-307 is
25 rewritten to read:

26 "The assessor may conduct preparatory work before the
27 listing period begins, but he may not make a final
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1 appraisal of property before the day as of which the value
2 of the property is to be determined under G.S. 105-285."

3 Sec. 21. G.S. 105-309 is amended as follows:

- 4 (1) by deleting the words "or proper list taker" in
5 subsection (a);
6 (2) by deleting the words "or list taker" in
7 subsection (b) and in subdivision (2) of
8 subsection (d); and
9 (3) by rewriting (d) (1) to read:

10 "(1) If the assessor considers it necessary
11 to obtain a complete listing of personal
12 property, he may require a taxpayer to
13 submit additional information, inventories,
14 or itemized lists of personal property."

15 Sec. 22. G.S. 105-311(a) is amended by deleting
16 the words "or proper list taker".

17 Sec. 23. G.S. 105-328 is amended as follows:

- 18 (1) by rewriting (b) (2) and (3) to read:

19 "(2) With the approval of the governing body, a
20 municipal assessor may employ listers,
21 appraisers, and clerical assistants
22 necessary to carry out the listing,
23 appraisal, assessing, and billing functions
24 required by law.

- 25 (3) A municipal assessor and the persons
26 employed by him have the same powers and
27 duties as their county equivalents with
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1 respect to property subject to taxation by a
2 city or town."; and

- 3 (2) by deleting the phrase "list takers, and
4 assistants" each time it appears in (b) (6) and
5 substituting the phrase "and persons employed by
6 an assessor".

7 Sec. 24. G.S. 105-313 is rewritten to read:

8 "§105-313. Report of property by multi-county busi-
9 nesses.--A taxpayer who is engaged in business in more than
10 one county in this State and who owns real or tangible
11 personal property in connection with his multi-county
12 business shall, upon the request of the Department of
13 Revenue or the assessor of a county in which part of this
14 business property is situated, file a report with the
15 Department of Revenue stating, as of the dates specified in
16 G.S. 105-285 of any year, the following information:

- 17 (1) The counties in this State in which the
18 taxpayer's business property is situated;
19 (2) The taxpayer's investment, on a county by county
20 basis, in his business property situated in this
21 State, categorized as the Department of Revenue
22 or the assessor may require; and
23 (3) The taxpayer's total investment in his business
24 property situated in this State, categorized as
25 the Department of Revenue or the assessor may
26 require.

1 This report shall be subscribed and sworn to by the
2 owner of the property. If the owner is a corporation,
3 partnership, or unincorporated association, the report
4 shall be subscribed and sworn to by a principal officer of
5 the owner who has knowledge of the facts contained in the
6 report."

7 Sec. 25. Article 29 of Chapter 105 is amended as
8 follows:

- 9 (1) by recodifying G.S. 105-387 through G.S. 105-392
10 as G.S. 47-108.20 through G.S. 47-108.25 of
11 Article 4 of Chapter 47 of the General Statutes;
12 and
13 (2) by repealing G.S. 105-393.

14 Sec. 26. Subchapter II of Chapter 105 of the
15 General Statutes is amended by deleting the words "tax
16 supervisor" or "tax supervisors" each time they appear in
17 the following statutes and substituting the word "assessor"
18 or "assessors", as appropriate:

- 19 G.S. 105-277.1(c) (1) and (2).
20 G.S. 105-277.4(a), (b), and (b1).
21 G.S. 105-277.5.
22 G.S. 105-277.6(a).
23 G.S. 105-277.7.
24 G.S. 105-282.1.
25 G.S. 105-286(b).
26 G.S. 105-289 (i).
27 G.S. 105-294(b).

SESSION 19

- 1 G.S. 105-295.
- 2 G.S. 105-296(a), (c), and (h).
- 3 G.S. 105-297.
- 4 G.S. 105-302(c)(6) and (9).
- 5 G.S. 105-302.1.
- 6 G.S. 105-303.
- 7 G.S. 105-306(c)(5).
- 8 G.S. 105-307.
- 9 G.S. 105-308.
- 10 G.S. 105-309.
- 11 G.S. 105-311.
- 12 G.S. 105-312.
- 13 G.S. 105-314(b).
- 14 G.S. 105-315(a).
- 15 G.S. 105-316(a).
- 16 G.S. 105-317(b).
- 17 G.S. 105-321(a).
- 18 G.S. 105-322(d) and (g)(2)c.
- 19 G.S. 105-325.
- 20 G.S. 105-326(b).
- 21 G.S. 105-328(b).
- 22 G.S. 105-366(d)(1).
- 23 G.S. 105-368(i).

24 Sec. 27. All sections of the North Carolina
25 General Statutes that are not listed in Section 26 of this
26 act and that contain the words "tax supervisor" or "tax
27 supervisors" are amended by deleting the words "tax
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1 supervisor" or "tax supervisors" and substituting the words
2 "assessor" or "assessors", as appropriate.

3 Sec. 28. Article 30 of Chapter 105 of the
4 General Statutes is amended by adding a new section to
5 read:

6 "§105-396. Applicable date when due date falls on
7 weekend or holiday.-- When the last day for doing an act
8 required or permitted by this Subchapter falls on a
9 Saturday, Sunday, or holiday, the act is considered to be
10 done within the prescribed time limit if it is done on the
11 next business day."

12 Sec. 29. Sections 1, 3 through 7, and 9 of this
13 act shall become effective January 1, 1986. The remaining
14 sections of this act are effective upon ratification.
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A BILL TO BE ENTITLED
AN ACT TO TAX LESSEES AND USERS OF PROPERTY OWNED BY THE UNITED STATES, THE STATE, OR ITS POLITICAL SUBDIVISIONS AND USED BY THE LESSEES OR USERS FOR PRIVATE BUSINESS PURPOSES.

The General assembly of North Carolina enacts:

Section 1. Article 12A of Chapter 105 of the General Statutes is rewritten to read:

"Article 12A.

"Taxation of Lessees and Users of Governmentally-owned Real and Tangible Personal Property.

"§105-282.7. Taxation of lessees and users of governmentally-owned real and tangible personal property.--(a) Except as provided in subsection (b), a person who, for private business purposes, leases, rents, uses, or occupies real or tangible personal property owned by the United States, the State, or a political subdivision of the State is subject to taxation to the same extent as if that person owned the property.

(b) This section does not apply to:

- (1) Property for which the lessee or user is required by law or contractual agreement to make payments in lieu of taxes in amounts equal to the amount of tax that would be lawfully assessed if the property were not exempt from taxation;
- (2) Property within a public airport that is:
 - a. Occupied by an airline company, as defined by

- G.S. 105-33(1), and used by it in connection with the air transportation of persons or property;
- b. Occupied and used by a fixed-base operator providing aviation services to the public;
 - c. Occupied by a motor vehicle rental agency; or
 - d. Occupied by a person engaged primarily in the business of providing food services to travelers at the airport;
- (3) Property within the boundaries of an installation of the State Ports Authority that is leased by a person engaged in maritime transportation of persons or property and used in connection with the maritime transportation of persons or property;
- (4) Property used on a short-term basis as a part of or in conjunction with a State, county, or community fair, a farmer's market, or a similar activity;
- (5) Property made available to a person without rent or other compensation solely for the purpose of performing one of the functions of the governmental owner;
- (6) Property provided as housing for faculty, staff, students, or guests at an educational institution;

- (7) Property that would qualify for exemption or exclusion if the lessee or user owned the property;
- (8) Property leased, rented, used, or occupied by a public service company, as defined in G.S. 105-333(14);
- (9) Property leased under a contractual agreement made prior to July 1, 1985, in which the owner has agreed to pay any ad valorem taxes that may be lawfully assessed against the property;
- (10) Property at a public hospital, and property that is within three miles of a public hospital and is occupied by a provider of medical care; and
- (11) Vending facilities operated by a visually handicapped person pursuant to a contract with the Division of Services for the Blind, Department of Human Resources.

(c) Taxes assessed pursuant to this Article are levied on the privilege of leasing or otherwise using governmentally-owned property for private business purposes. The purpose of the taxes is to eliminate the competitive advantage accruing from the use of governmentally-owned property for private business purposes.

"§105-282.8. Listing, assessment, and collection.--Except as provided in this section, property subject to this Article shall be listed, assessed, and taxed, and taxes levied on this

property shall be collected, in the same manner and to the same extent as if the lessee or user owned the property. Taxes assessed pursuant to this Article do not constitute a lien on governmentally-owned real property, and governmentally-owned tangible personal property is not subject to levy and sale to satisfy these taxes. Otherwise, all remedies and procedures provided by this Subchapter for the collection of property taxes apply."

Sec. 2. This act shall become effective for taxable years beginning on or after January 1, 1986.

A BILL TO BE ENTITLED

AN ACT TO PROVIDE TAXPAYERS MORE NOTICE OF THE ADOPTION OF SCHEDULES OF VALUE AND TO CLARIFY THE PROCEDURE FOR APPEALS CONCERNING SCHEDULES OF VALUE AND OTHER PROPERTY TAX MATTERS.

The General Assembly of North Carolina enacts:

Section 1. G.S. 105-317 is amended as follows:

(1) by rewriting subdivision (b) (1) to read:

"(1) Uniform schedules of values, standards, and rules to be used in appraising real property at its true value and at its present-use value are prepared and are sufficiently detailed to enable those making appraisals to adhere to them in appraising real property.";

(2) by deleting the phrase "adopted pursuant to subsection (b)" in subdivision (b) (4);

(3) by rewriting subsection (c) to read:

"(c) The schedules of values, standards, and rules required by subdivision (b) (1) shall be reviewed and approved by the board of county commissioners before January 1 of the year they are applied. The board of county commissioners may approve the schedules of values, standards, and rules to be used in appraising real property at its true value and at its present-use value either separately or simultaneously. Notice of the receipt and adoption by the board of county commissioners of either or both the true value and present-use value schedules, standards, and rules, and notice of a property owner's right to comment on

and contest the schedules, standards, and rules shall be given as follows:

- (1) The assessor shall submit the schedules, standards, and rules to the board of county commissioners not less than 21 days before the meeting at which they will be considered by the board. On the same day that they are submitted to the board for its consideration, the assessor shall file a copy of the schedules, standards, and rules in his office where they shall remain available for public inspection.
- (2) Upon receipt of the schedules, standards, and rules, the board of commissioners shall publish a statement in a newspaper having general circulation in the county stating:
 - a. That the schedules, standards, and rules to be used in appraising real property in the county have been submitted to the board of county commissioners and are available for public inspection in the assessor's office; and
 - b. The time and place of a public hearing on the schedules, standards, and rules that shall be held by the board of county commissioners at least seven days before adopting the schedules, standards, and rules.

(3) When the board of county commissioners approves the schedules, standards, and rules, it shall issue an order adopting them. Notice of this order shall be published once a week for four successive weeks in a newspaper having general circulation in the county, with the last publication being not less than seven days before the last day for challenging the validity of the schedules, standards, and rules by appeal to the Property Tax Commission. The notice shall state:

- a. That the schedules, standards, and rules to be used in the next scheduled reappraisal of real property in the county have been adopted and are open to examination in the office of the assessor; and
- b. That a property owner who asserts that the schedules, standards, and rules are invalid may except to the order and appeal therefrom to the Property Tax Commission within 30 days of the date when the notice of the order adopting the schedules, standards, and rules was first published."; and

(4) by adding the following subsection to read:

"(d) Before the board of county commissioners adopts the schedules of values, standards, and rules, the assessor

may collect data needed to apply the schedules, standards, and rules to each parcel in the county.

Sec. 2. G.S. 105-277.6(c) is deleted.

Sec. 3. G.S. 105-290 is amended as follows:

(1) by rewriting subdivision (c) (1) to read:

"(1) A property owner of the county who, either separately or in conjunction with other property owners of the county, asserts that the schedules of values, standards, and rules adopted by order of the board of county commissioners do not meet the true value or present-use value appraisal standards established by G.S. 105-283 and G.S. 105-277.2(5), respectively, may appeal the order to the Property Tax Commission by filing a notice of appeal with the Property Tax Commission within 30 days of the date when the notice of the order adopting the schedules, standards, and rules was first published, as required by G.S. 105-317(c)."; and

(2) by adding the following new subsections to read:

"(e) Time Limits for Appeals.--A notice of appeal from an order of a board of equalization and review shall be filed with the Property Tax Commission within 30 days after the board of equalization and review has mailed a notice of its decision to the property owner. A notice of appeal from an order of a board of commissioners concerning the listing, appraisal, or assessment of property shall be filed with the Property Tax Commission

within 30 days after the board of county commissioners enters the order.

(f) Notice of Appeal.--A notice of appeal filed with the Property Tax Commission shall be in writing and shall state the grounds for the appeal. A property owner who files a notice of appeal shall send a copy of the notice to the appropriate county assessor.

(g) What Constitutes Filing.--A notice of appeal is considered to be filed with the Property Tax Commission when it is received in the office of the Commission."

Sec. 4. G.S. 105-324 is repealed.

Sec. 5. The second sentence of G.S. 105-277.4(b1) and the fifth sentence of G.S. 105-282.1(b) are each amended by deleting the phrase "as provided in G.S. 105-324".

Sec. 6. The second sentence of G.S. 105-282.1(b) is amended by deleting the phrase "as provided in G.S. 105-322 and 105-324".

Sec. 7. The first sentence of G.S. 105-289.1(c) is amended by deleting the phrase "and a written statement of the grounds of appeal" and substituting the phrase "stating the grounds for appeal".

Sec. 8. G.S. 105-325 is amended as follows:

- (1) by deleting the reference "105-324" in subdivision (a)(1) and substituting the reference "105-290"; and
- (2) by deleting the reference "G.S. 105-324(c)" in subsection (c) and substituting the reference

"G.S. 105-290".

Sec. 9. G.S. 105-290(b) is amended by adding the following sentence immediately after the first sentence of that subsection to read:

"Any property owner of the county may except to an order of the county board of equalization and review or the board of county commissioners concerning the listing, appraisal, or assessment of property and appeal the order to the Property Tax Commission."

Sec. 10. This act shall become effective January 1, 1986.

A BILL TO BE ENTITLED

AN ACT TO MODIFY THE PROPERTY TAX HOMESTEAD EXEMPTION AND TO SET
DIFFERENT INCOME LIMITS FOR SINGLE AND MARRIED INDIVIDUALS.

The General Assembly of North Carolina enacts:

Section 1. G.S. 105-277.1(a) is rewritten to read:

"(a) Real property or a mobile home owned and occupied by a qualifying owner as his permanent residence and household personal property owned and used by a qualifying owner in connection with his permanent residence are designated a special class of property pursuant to Article V, Sec. 2(2) of the North Carolina Constitution and are taxable in accordance with this section. The greater of the first twelve thousand dollars (\$12,000) in assessed value of an owner's classified property and the base excludable amount of the assessed value of this property is excluded from taxation."

Sec. 2. G.S. 105-277.1(b) is amended as follows:

(1) by deleting the phrase "eight thousand five hundred dollars (\$8,500)" in subdivision (1) and substituting the phrase "the base excludable amount allowed under subsection (a) for the oldest of the co-owners";

(2) by inserting a new subdivision between subdivisions (1) and (2) to read:

"(1a) 'Base excludable amount' means the amount of assessed value of classified property that must be excluded for the owner of the property to receive the same dollar amount reduction in

his taxes on this property that he received the previous year. For real property, the base excludable amount shall be increased or decreased in a year in which a general reappraisal occurs in proportion to the amount that the assessed value of the owner's real property classified under this section increased or decreased."; and

(3) by inserting a new subdivision between subdivisions (3) and (4) to read:

"(3a) 'Qualifying owner' means an owner who, as of January 1 of the year for which the benefit of this section is claimed:

- a. Is a North Carolina resident;
- b. Is at least 65 years old or is totally and permanently disabled; and
- c. Had a disposable income for the immediately preceding calendar year of not more than nine dollars (\$9,000), if the owner is single, or fifteen thousand dollars (\$15,000), if the owner is married and lived with his spouse for at least half that year. An owner who is married and lives with his spouse must include the disposable income of his spouse."

Sec. 3. This act is effective for taxable years beginning on or after January 1, 1986.

A BILL TO BE ENTITLED

AN ACT TO MAKE LAND OWNED BY A CORPORATION ELIGIBLE FOR USE-VALUE APPRAISAL AND TO REQUIRE PAYMENT OF DEFERRED TAXES FOR THE PREVIOUS FIVE YEARS INSTEAD OF THREE YEARS WHEN A DISQUALIFYING TRANSFER OF LAND OCCURS.

The General Assembly of North Carolina enacts:

Section 1. G.S. 105-277.2 is amended as follows:

(1) by deleting subdivision (4) and renumbering the succeeding subdivisions accordingly; and

(2) by inserting a new subdivision between subdivisions (1) and (2) to read:

"(1a) 'Family corporation' means a corporation whose principal business is one of the activities described in subdivisions (1), (2), and (3) and whose shareholders are all natural persons who either are actively engaged in the business of the corporation or are the spouse, siblings, or parents of a shareholder who is actively engaged in the business of the corporation."

Sec. 2. G.S. 105-277.3(a) is amended by deleting the words "Individually owned agricultural", "Individually owned horticultural", and "Individually owned forestland" in subdivisions (1), (2), and (3), respectively, and substituting the words "Agricultural", "Horticultural", and "Forestland" in these subdivisions.

Sec. 3. The second paragraph of G.S. 105-277.3(b) is rewritten to read:

"If owned by a corporation, other than a family corporation, the property must have been owned by that corporation, by a parent corporation owning all the shares of that corporation, or by a wholly-owned subsidiary of that corporation for the four years preceding January 1 of the year for which the benefit of this section is claimed. If owned by a family corporation, the property must have been owned by that corporation or by one or more of its shareholders for the four years preceding January 1 of the year for which the benefit of this section is claimed. Property classified for taxation at its present-use value and owned by a family corporation shall not lose its classification because of the death of one of its shareholders if the decedent's shares pass to the decedent's spouse or children.

Sec. 3. The third sentence of G.S. 105-277.4(c) is amended by deleting clauses (i) through (iv) and substituting the following clauses to read: "(i) the owner, if a natural person, conveys the property to anyone other than his spouse, child, or sibling; (ii) property owned by a natural person passes by will or intestacy to anyone other than the spouse, child, or sibling of the decedent; (iii) the property is transferred to a family corporation by anyone other than a shareholder of the corporation; (iv) property owned by a family corporation is transferred to anyone other than a shareholder of the corporation; (v) property is transferred to a corporation by anyone other than a parent corporation or wholly-owned

subsidiary; or (vi) the property loses its eligibility for the benefit of this classification for some other reason."

Sec. 4. The fourth and sixth sentences of G.S. 105-277.4(c) are amended by deleting the word "three" and substituting the word "five".

Sec. 5. This act shall become effective January 1, 1986, and shall apply to each county when the county's next general reappraisal of real property under G.S. 105-286(a) is made.

